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ABSTRACT

The document contains proceedings of a conference on consumer interests. The proceedings are proposed for those who attended the conference and other interested professionals. The major purpose of these proceedings is to stimulate thought and discussion regarding consumer issues. The first general session focuses on consumer representation. Three papers examine government and business reactions to the consumer movement. One paper describes recent legislative and consumer group efforts to help consumers become better informed, more efficient, and more satisfied. Two papers present issues related to prices, regulation, and energy and two papers focus on the economics of medical expense insurance and rights of the disabled. The second general session examines consumer and industrial views of liability. Concurrent meetings at the third general session focus on (1) the American Council on Consumer Interests; (2) national telecommunications; (3) federal consumer programs and safety standards; (4) consumer complaints; and (5) a market simulation to teach consumer skills to children. The fourth session examines credit issues, including the consumer side of revolving credit and the effect of debt on household welfare. The closing session concentrates on a framework for consumer policy analysis and a sociological theory of consumerism. The theory suggests that there are six major determinants of consumerism and that interaction between these factors results in a particular consumer movement. A directory of conference participants is included in the document. (Author/DB)

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AMERICAN COUNCIL ON CONSUMER INTERESTS

23rd Annual Conference

April 20-23, 1977

Denver, Colorado

THE PROCEEDINGS

Convention Theme:

EXAMINING THE ISSUES

SP 010 697

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PROGRAM

AMERICAN COUNCIL ON CONSUMER INTERESTS
23rd Annual Conference
April 20-23, 1977
Denver, Colorado

Convention Theme:
EXAMINING THE ISSUES

Thursday, April 21, 1977

FIRST GENERAL SESSION

Presiding: Dr. Edward J. Metzen, University of Missouri-Columbia, Director ACCI

Welcome: Miss Sue Osborn, ACCI Local Arrangements Chairperson, Colorado State University Extension Service, Ft. Collins

Welcome: Ms. Marjorie Merchant, University of Massachusetts, President, American Council on Consumer Interests

Speaker: Mr. David Schoenfeld, Consumer Advocate, J. C. Penney Company, Inc.
"CONSUMER REPRESENTATION IN REGULATORY PROCEEDINGS"

CONCURRENT SESSIONS

I. Consumer Interests in the Non-market Sector

Presiding: Ms. Sandra Willett, Executive Director, National Consumers League

Speaker: Dr. Alan Gartner, Professor, City University of New York
"DELIVERY OF HUMAN SERVICES"

Speaker: Dr. Roger Swagler, Associate Professor of Consumer Studies, University of Tennessee
"POST-SECONDARY EDUCATION"

II. Product Warranties

Presiding: Ms. Chris Hager, Economic Research Service, USDA

Speakers: Dr. [illegible] Keith Bryant, Professor and Dr. Jennifer Gerner, Assistant Professor, Consumer Economics and Public Policy, Cornell Univ.
"THE PRICE OF A WARRANTY"

Speaker: Dr. T. J. Wang, Research Analyst, National Bureau of Standards, U. S. Department of Commerce
"SERVICE LIVES OF MAJOR APPLIANCES"

Speaker: Ms. Delores Wesley Lee, Monsanto Textiles Company
"WARRANTIES-TEXTILES FIELD"

III. Consumer Education

Presiding: Ms. Edna De Coursey Johnson, Director, Consumer Services, Baltimore Urban League

Speaker: Dr. Gayle Royer Trujillo, Project Director, InterAmerica Research Associates
"IDENTIFICATION OF CONTENT AND FOCUS"

Speaker: Dr. Lucy B. Creighton, Associate Professor, Economics, Colorado Women's College
"TIME FOR A CHANGE"

Speaker: Dr. Jo Hewell, Administrator, Osceola County School District
"PROJECT SKAT"

LUNCHEON

Presiding: Dr. Aurelia Toyer Miller, Associate Professor, Consumer Economics, University of Massachusetts

Speaker: Ms. Elizabeth Hanford Dole, FTC Commissioner
"EXAMINING THE ISSUES"

Distinguished Fellows of ACCI Awards
Presiding: Dr. Jean Bowers, Director ACCI

CONCURRENT SESSIONS

I. Prices, Regulation and the Energy Scene

Presiding: Dr. E. Scott Maynes, Professor and Chairman, Consumer Economics and Public Policy, Cornell University

Speaker: Mr. Martin Lobel, Attorney, Washington, D.C.
"AN ADVOCATES VIEW"

Speaker: Mr. Howard Hardesty, Executive Vice President, Continental Oil
"AN INDUSTRY RESPONSE"

II. Consumer Issues

Presiding: Dr. Michael Bernacchi, Assistant Professor of Marketing, University of Detroit

Speaker: Dr. Lilly Bruck, Director, Consumer Education, Department of Consumer Affairs, The City of New York
"CONSUMER RIGHTS OF THE DISABLED"

Speaker: Dr. Sylvia Lane, Professor, Agriculture Economics, University of California at Davis
"ECONOMICS OF MEDICAL EXPENSE INSURANCE"

III. Consumer Information

Presiding: Dr. Brousseau, Program Manager, National Science Foundation

Speakers: Dr. Heinz Biesdorf, Professor and Ms. Jo Swanson, Extension Associate, Consumer Economics and Public Policy, Cornell University
"A DELIVERY SYSTEM"

Speaker: Dr. George Sproles, Assistant Professor, Consumer Sciences, Purdue University
"EFFICIENCY OF CONSUMER PERFORMANCE"

Friday, April 22, 1977

SECOND GENERAL SESSION

Product Liability: Where Is It Taking Consumers?

Presiding: Ms. Rhoda Karapatkin, Executive Director
Consumers Union

Speaker: Dr. Roger Henderson, Professor of Law, University of Nebraska
"A CONSUMER VIEW"

Speaker: Mr. T. Lawrence Jones, President, American Insurance Association
"AN INDUSTRY VIEW"

THIRD GENERAL SESSION

The ACCI, Its Relationship to Consumers, to Government and to Business

Presiding: Ms. Marjorie Merchant, President, ACCI, Professor, Family and Consumer Economics, University of Massachusetts

Panel:
Dr. Scott Maynes, Chairman, Cornell University
Dr. Carole Vickers, Marshall University
Ms. Edna Johnson, Baltimore Urban League

Panel:
Dr. Richard Morse, Chairman, Kansas State University
Dr. Helen Nelson, University of Wisconsin
Dr. Stewart Lee, Geneva College

LUNCHEON

Presiding: Dr. Loren Geistfeld, Assistant Professor, Consumer Sciences, Purdue University

ACCI Research Awards

Speaker: Ms. Julia Marlowe, Graduate Teaching Assistant, Dept. of Child & Family Studies, The University of Tennessee
"IDENTIFYING FACTORS ASSOCIATED WITH SUCCESS IN OVERCOMING FINANCIAL DIFFICULTY"

Speaker: Ms. Josephine Turner, Assistant Professor, Oregon State University
"DEVELOPMENT AND VALIDATION OF A SIMULATED MARKET TO TEST CHILDREN FOR SELECTED CONSUMER SKILLS"

Speaker: Ms. Esther Peterson, Special Assistant to the President for Consumer Affairs
"CONSUMER PROTECTION AGENCY: AN ADVOCATE VIEW"

CONCURRENT SESSIONS

I. National Telecommunication: Public Policy Issues

Presiding: Dr. Jean Bowers, Associate Professor, Consumer Economics, Ohio State University, Director ACCI

Panel:
Dr. Lee Richardson, Professor of Marketing, Louisiana State University
Mr. Ian D. Volner, Counsel to North American Telephone Association
Mr. Theodore L. Simis, Assistant Vice President-Staff, AT&T

II. Federal Consumer Programs

Presiding: Dr. Helen Goetz, Professor, Consumer Sciences, University of Alabama, Vice President ACCI

Speaker: Mr. Victor P. Petralia, Director, Denver Area Office, Consumer Produce Safety Commission
"CONSUMER REPRESENTATION IN SETTING SAFETY STANDARDS"

Speaker: Mr. Gene Cope, National Marine Fisheries Service, U.S. Dept. of Commerce
"DEPT. OF COMMERCE AND CONSUMER PROTECTION"

Speaker: Ms. Anne Geary, Equal Credit Opportunity Section, Federal Reserve System
"CONSUMER REPRESENTATIVE IN THE FEDERAL RESERVE"

III. Consumer Complaints

Presiding: Mr. Tim Ryles, Governor's Office, Consumer Affairs, Atlanta, Georgia

Speaker: Dr. William O. Bearden, Graduate School of Business, University of Alabama
"CONSUMER SATISFACTION WITH UTILITIES"

Speaker: Dr. August Ralston, Associate Professor of Finance, Bowling Green State University
"STATE INSURANCE COMMISSIONERS AND THE CONSUMER PROTECTION FUNCTION"

Speaker: Mr. Stephen A. Graham, Executive Assistant, Department of Consumer Affairs, Columbia, South Carolina
"UNJUSTIFIED COMPLAINTS"

IV. Consumer Related Issues

Presiding: Dr. Carl Hall, Professor and Chairman, Department of Housing, Design and Consumer Resources, Oklahoma State University, Director ACCI

Speaker: Dr. Dustin Wilson, Director, Office of Consumer Education, HEW
"CONSUMER EDUCATION-ISSUES AND THE OFFICE OF CONSUMER EDUCATION EFFORTS"

Speaker: Mr. Richard Hulsart, Area Development Coordinator, National Assessment of Educational Progress
"HISTORY OF THE DEVELOPMENT OF NATIONAL ASSESSMENT'S CONSUMER SKILLS ASSESSMENT"

Speaker: Ms. Sandra Willett, Executive Director, National Consumers League
"AGENCY FOR CONSUMER PROTECTION: DISCUSSION"

BUSINESS MEETING

BANQUET

Toastmistress: Ms. Marjorie Merchant, President ACCI

COLSTON E. WARNE LECTURE

Speaker: The Honorable George Brunn, Judge, Municipal Court, Berkeley-Albany Judicial District, California
"THIS BUSY MONSTER: REFLECTIONS ON THE CONSUMER SOCIETY:

Saturday, April 23, 1977

FOURTH GENERAL SESSION

Credit Issues

Presiding: Dr. Carol Meeks, Assistant Professor, Consumer Economics and Public Policy, Cornell University

Speaker: Dr. W. C. Dunkelberg, Associate Director, Credit Research Center, Purdue University
"THE CONSUMER SIDE OF REVOLVING CREDIT"

Speaker: Dr. Jean Kinsey, Assistant Professor, Agricultural Economics, University of Minnesota
"EFFECT OF DEBT ON HOUSEHOLD WELFARE"

Closing Session

Presiding: Dr. Robert Herrmann, Professor, Agricultural Economics, Pennsylvania State University

Speaker: Dr. Lawrence Shepard, Assistant Professor, Agricultural Economics, University of California at Davis
"TOWARD A FRAMEWORK FOR CONSUMER POLICY ANALYSIS"

Speaker: Dr. Gregory Gazda, Assistant Professor, Business Administration, San Diego State University
"A THEORY OF CONSUMERISM"

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From the Editor

The Proceedings of the 23rd Annual American Council on Consumer Interests Conference "Examining the Issues" are prepared for those attending the conference and other interested professionals. The purpose of this publication is to stimulate thought and discussion regarding the various issues denoted.

Several additions have been implemented in this year's Proceedings. First, abstracts appear before each paper. Second, an author's index is offered on page vii. This index includes the name, title, address, and telephone numbers of all conference speakers. Hopefully, these modifications will assist us in better serving our membership.

To avoid unnecessary duplication several papers have been limited to abstracts in The Proceedings. The full text of these abstracts will appear in future issues of The Journal of Consumer Affairs.

It has been a pleasure for me to be associated with the Conference this year. Appreciation is extended to the conference speakers for their cooperation. Further, special appreciation is offered to those faculty and graduate students at the University of Missouri-Columbia who assisted me with this endeavor.

--Mel J. Zelenak
University of Missouri-Columbia

CONSUMER REPRESENTATION

IN REGULATORY PROCEEDINGS

Mr. David Schoenfeld*

For too long, consumer representation has been given second class status in governmental and business community processes. Although faring better in business, the consumer affairs function is often a token department, not created with enough clout to operate effectively. The ACA and S.270 are efforts to provide for the consumer interest in governmental proceedings. Consumer representatives are in need of funding which would enable them to participate more equally with other interests. As the consumer movement is becoming institutionalized as a social force in society, it is being accompanied by consumers accepting responsibility for participating in the total process, and S.270 is one means of accomplishing this goal.

For too long consumer representation has been a stepchild of the governmental and business community's process. In many respects it has been window-dressing or tokenism. In government, the President's Committee on Consumer Interests and its successor, The Office of Consumer Affairs, have lacked any real clout; and they have been the most visible representatives of the consumer at the federal level. The Special Assistants have enjoyed success only in those instances where their personal efforts of persuasion have overcome great odds. This does not discount the efforts of the various federal agencies working on behalf of the consumer. However, pursuing the consumer interest is not necessarily synonymous with the public interest, and the basic thrust of most agencies is not protection or representation of the consumer interest. Even in agencies having consumer representatives, those individuals operate at a considerable disadvantage because they are not on the main track of the agency and their effort is sublimated in most instances to the major thrust of the agency.

In the business community there is a considerable attention to consumer affairs. As you might expect, the definition of consumer affairs and delineation of the areas of responsibility for that operation in terms of specific functions run the full gamut. There are many consumer affairs representatives in business. In fact SOCAP (Society of Consumer Affairs Professionals) membership is about 800. However, the critical test is whether they represent the consumer to the company or represent the company to the consumer. Any true consumer affairs operation in business must have as its target audience the company itself and serve as a conduit for the consumer input to be introduced into the decision-making process. The J. C. Penney Company Consumer Affairs Department is unusual in doing this. Having a consumer advocate operating within a department which has a variety of functions in consumer affairs is unique.

*Consumer Advocate, J. C. Penney Company, Inc.

Consumer representation of a substantive nature has been lacking both in government and in business. Only recently through the efforts of the Carter Administration in moving some of the outstanding people in the consumer movement into the governmental process and the efforts at legislation such as ACA (S.1262) and S.270, do we have a sincere effort to create channels for effective consumer representation at the federal level.

Access has always existed for all parties and interests to a federal proceedings and those interests with a substantial economic concern have been presented. However, the access as it exists for the consumer interest has been theoretical--theoretical because consumers lack the resources, individually and collectively, to perform the research and critical analysis and then present the viewpoint from the consumer perspective to the proceeding. In some instances organizations like the Consumer Federation of America and Congress Watch have been able to provide a limited voice in these proceedings; however, it has been virtually impossible for grassroots consumers to achieve representation. S.2715 as introduced by Senator Kennedy in the 94th Congress, addressed this problem directly. As a result, the decision-making process would be much improved because of the addition of the consumer perspective for consideration along with all other inputs.

S.2715 was called the Public Participation in Government Proceedings Act of 1976 and in effect would permit awards of attorneys fees and other expenses of participation before federal regulatory agencies and in certain court cases involving the review of agency action. The legislation must be clarified in three basic areas of the legislation in order to improve participation, prevent abuses, and assure that the procedures would permit consumer representation to be provided on the basis of substantive contribution and without duplication. Suggested changes include:

1. A definition of the word "proceedings" which was somewhat vague in terms of which matters would be funded other than formal proceedings as the term is defined in the Administrative Procedures Act;

2. A standard for determining the eligibility of the individual or organization to receive compensation; and

3. Guidelines for the funding mechanism and the compensation levels.

The development of a piece of legislation is a lengthy process. It involves many inputs, compromises and discussions. The development of a corporate position is an internal process, much like government, which is then communicated externally. In the instance of S.2715, positions were being forged differently on this legislation in that

there was direct dialogue among the parties, prior to positions being set in concrete. What followed may serve as a model for the future. It was an eye-opening experience for all and ended with expressions of the desirability of working out issues and problems in this fashion in the future to prevent polarization of issues and positions.

As a consequence, an initial meeting was set. The participants were Joan Claybrook of Congress Watch, and her associate Dave Lenny and Carol Foreman of Consumer Federation of America along with Kathleen O'Reilly, her associate at the time, and representatives of the legal and government relations departments of the Penney Company and myself. The first meeting was quite successful: there was openness, frankness and, most importantly, an objectivity: the arguments presented were logical and rational and not of the emotional type. As the concerns were laid out and the consumer representatives discussed them, they accepted them as valid concerns which had not been delineated sufficiently in the legislation. Also they candidly admitted that they had overlooked these areas and were most receptive to working on changes to remedy these problems and thus tighten up and improve the legislation. A second meeting was scheduled to begin working on specific language to accommodate these changes. That was the first of many meetings that were held over a period of several months to iron out the language and arrive at mutually acceptable technical amendments to the legislation that also would be acceptable to the staff of the Senate Sub-Committee on Administrative Practice and Procedures. The months of negotiations resulted in a series of technical amendments which were accepted in their entirety by Senator Kennedy and his staff and incorporated totally into the new version of the legislation, namely S.270, which was reintroduced in the 95th Congress. Subsequently, in February of this year, the Penney Company testified in support of the legislation and gave its endorsement to the bill.

Let me run down the basic elements of the legislation for you. Any person is eligible to receive an award for participation in any agency proceeding so long as that person represents an interest which could contribute substantially to a fair determination of the proceeding. The criteria for eligibility include the following: whether or not the person represents an interest not already adequately represented; the number and complexity of issues; whether there will be a representation of a fair balance of interests; and whether the economic interest of the person in the outcome is small in comparison to the cost of effective participation of that person. The person must also demonstrate to the agency that he or she lacks sufficient funds to participate. If multiple applications are submitted, the agency may require consolidation of presentations. Also the agency must make a written determination of the eligibility of an applicant for an award prior to the commencement of the proceeding. The awarding of compensation is based on prevailing market rates with several qualifications but compensation for attorneys' fees in the Senate version is limited to $75.00 per hour--this differs from the House version which sets prevailing market rates for all participants. The total funding allocated under this legislation is $10 million annually. As you know, there are several agencies which are currently, or in the near future,going to

implement public participation. The FTC has the authority under the Magnuson-Moss Warranty Act and has funded approximately $1 million worth of consumer participation. The FDA has responded favorably to a petition of Consumers Union. In this regard, CPSC has indicated that it will proceed also and is setting up an Office of Public Advocacy to develop and administer their program. The FEA has just awarded funds to Consumers Union for a proceeding on oil company overcharges. As a matter of fact, last year the General Accounting Office handed down an opinion that under the existing law all agencies have the authority to provide funding for public participation, but relative few have chosen to move on the issue. Therefore, this legislation is intended to develop a uniformity of approach in securing that fair balance of interests in proceedings of all agencies.

The major issue today for consumers is developing the mechanisms and structures for representation in the various arenas of decision-making, whether in government, business or any other sector with consumer impact. These mechanisms have not existed to any meaningful degree in the past. They are beginning to open up, and it is of paramount importance for consumer leaders and organizations to pursue this effort diligently and responsibly. Many decisions have been handed down to which there was negative reaction from the consumer side, in great measure due to lack of participation or even knowledge of the proceedings by consumers.

Assuming this legislation is enacted, this will not only be an opportunity but a challenge of major importance--a key area of responsibility for consumers and the consumer movement to demonstrate their responsibility in participating in the total process. Assuring that the voice of the consumer is heard clearly and that it is a factual, responsible voice that speaks authoritatively with documentation is crucial to the consumer interest. Awareness and sensitivity is increasing to the fact that the consumer is not merely a shopping cart. The consumer movement is coming of age as a social force in society, and with it comes major responsibility. S.270 and other mechanisms for consumer representation must be addressed in a mature fashion so as to gain respect and attention as the new ingredient in the total process.

DELIVERY OF HUMAN SERVICES*

Dr. Alan Gartner**

Human services, including education, health, social services, and mental health, have usually not been seen as subject to the concerns of consumer educators. The author argues that such inattention is unwarranted and that benefits would accrue to providers and consumers from the critical involvement of consumer educators.

Consumer education has traditionally addressed activities related to the purchase of goods and, to a lesser extent, selected services, particularly credit, utilities, and some personal services. However, human services--health, education, social welfare services, mental health etc.--have received far less attention. This condition is related to the nature of the economy and the role within it of the human services and to other factors having to do with consumer education.

Health, education, and social services are, according to the prevailing wisdom, what people need. Concommitantly the individuals and institutions which provide these services are (in contrast to those who sell goods) granted many privileges and powers. While we recognize the need for a posture of wariness toward car dealers who seek to sell us options which we neither need nor desire in order to increase profits, we are far less likely to view a doctor doing something to us for any other reasons than our own benefit. Stated differently, a posture of caveat emptor is imperative for doing business in the private goods sector; as a society, we have not considered it necessary in the human services.

The posture of beneficence on the part of human service providers has led consumer educators to give less attention to the human services than to the for-profit sector. Also the role of government as the provider of most human services has diverted the attention of consumer educators. Finally, the marketplace focus on much of consumer education has encouraged less interest in an area where markets are traditionally thought of as non-existent.

This is not to suggest that there has been no attention by consumer education to the services in general or to the human services in particular. Indeed, the past year has witnessed such developments as these:

--Court suits brought by consumers and the government are challenging professionally imposed (and often governmentally

*While the ideas are the author's, grateful acknowledgment is given to The Office of Consumers' Education, USOE, which provided support for their development.

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sanctioned) restrictions on information available to consumers.

--A significant publication (Checkbook) has been launched to provide consumers in one city (Washington, D.C.) with information and comparative evaluations of services, including human services. In another form of user assessment, at least one bar association (San Francisco) has rated the city's entire judiciary.

--In higher education, attention is being given to the consumers' (the students') rights to know fully and honestly about what is being offered; in effect, "truth in advertising" is coming to the college catalog, in part through the stick of the Education Amendments of 1976 and the carrot of the National Task Force on Better Information for Student Choice, supported by the Fund for the Improvement of Post-Secondary Education (FIPSE).

--The growing number of programs of self-care, self-health, and patient activation, as well as the broader self-help, mutual aid and community participation developments is an important development of the current period. It has manifested itself in the increased presence of laypersons on professional licensing boards, of students on local school boards, of consumers on HSA planning bodies, in a range of books designed to inform and activate consumers (How to Be Your Own Doctor (Sometimes); How to Choose and Use Your Doctor; Schools Where Parents Make a Difference; You are Not Alone).

Some Comparisons

One way to see the nature of the issues regarding consumer education in the human services is to compare consumer education in the goods sector with that in the human services.

Consumer Education Activity	Goods Sector	Human Services
Values and Decision-making	Techniques to determine why one wishes to purchase something, the purpose and functions it serves, alternatives, and the basis for choosing.	For the most part, human services are assessed to be a self-evident good; their "consumption" is often mandatory, e.g., education, certain health services (vaccinations, blood tests for marriage, etc.) Usually, no alternatives are available (or at least presented). Often, the service-provider system has an effective monopoly precluding, for most people, choices as to providers.
Price Information	Generally, price information is available for consumer goods and competition based on price is central.	For those services which are publicly provided, price information is not considered relevant to consumers (although of possible interest to taxpayers). For those services which are paid for by consumers (e.g., doctor or private lawyer), until recently price discussions were taboo, and price comparisons not possible. What in the goods sector would be considered monopoly price fixing is justified in the services (e.g., standard fee schedules) as part of the professional nature of the human services; only in the past year or so has this been challenged.
Performance Information	Although complicated by questions as to the relevance (and sometimes honesty) of the data and the appropriateness of comparisons (if made), performance data are acceptable and in some instances required (e.g., gasoline mileage of cars, tar content of cigarettes).	Almost universally not done; the basis being the claimed complexity of doing so, the inability of laypeople to understand, claims of privacy. Where done, usually over a broad universe so as to mask specific provider (individual or institutional) performance; or done but not revealed to the public (e.g., PSRO), or done from the point of view of other professionals (e.g., PSRO's, the evaluation of judges by the San Francisco Bar Association).

Consumer Education Activity	Goods Sector	Human Services
Brand or Provider Comparisons	Although sometimes masked (e.g., "Brand X" or "the best known brand," etc.), such comparisons are (increasingly) frequent and accepted.	Almost universally frowned upon; for reasons similar to the reasons given on performance information. Where done (e.g., the Pennsylvania Insurance Commission's publication on hospitals), limited to basic structural information (e.g., number of beds, costs, etc.) and excluding information comparing quality of the services. Also made complicated by the local nature of human services. A notable exception to the absence of such information is Checkbook, a new Washington, D.C. magazine which compares and evaluates area services, including the human services.
Payment Procedure	Although, often not made clear, especially when there is a tie-in between the sale and financing of it, there is increasing pressure (legislative, administrative and judicial) to do so.	Generally has not been considered an appropriate topic of discussion between provider and consumer; recently greater acceptance here but complicated, particularly in health care, by complexity of third-party payment schemes.
Rights, Responsibilities, and Redress Procedures	Increasing information provided as to warranties and guarantees, redress remedies, although continuing problems as to coverage of the former and scope and procedures for the latter.	Some activity here as to rights (e.g., patient bills of rights), entitlements (right of all children to education), quality of service (decisions such as Shaw and Serrano as well as professional standards); redress machinery here complicated by the overlap between professional organizations (e.g., medical societies), public governance bodies (e.g., Boards of Education), payment agencies (e.g., Medicaid), and legislative bodies.
Consumer education and the economy	Considerable general information.	Generally, little attention here, often with an implicit anti-services bias (e.g., the underassessment of services in the GNP, the implication that the "real work" in the society is goods production).

Twin Benefits

Our concern with consumer education and human services is a dual one--from the perspective of consumer education and from that of the human services. Each can benefit from closer interaction.

Passivity on the part of consumers is a special problem in the human services. Unlike the goods sector where the production process can by itself adequately fill a consumer's demand, the consumer is a producer in the human services. Not only is the student, for example, a consumer of the service of learning, but also (s)he is a factor in the production of it. That is, while the teacher may teach, it is the child who must do the learning. Similarly, in health and mental health care, it is the patient who is the key factor in producing his or her own return to (or maintenance of) good health.

Traditional notions argue that productivity in human services cannot be increased sharply because it is not amenable to capital-intensive inputs. It is labor-intensive work, and therefore inputs are costly and potentially inflationary. However, human service work is consumer-intensive, and the key to increasing productivity and consumer satisfaction in it lies in effectively engaging and mobilizing the consumer.

Such an approach, one which engages the consumer as an effective producer of the service, has the potential double benefit of producing greater service efficiency and greater consumer satisfaction.

This involvement of the consumer of the service is part of the broad effort incorporating community participation, the utilization of community-based paraprofessionals, and the spread of self-help mutual aid groups. More specifically, it focuses on the very activities of services delivery.

Consumers of human services thus require adequate information so they can make informed choices. Providers of human services must no longer be allowed to hide facts essential to informed and effective consumer choice, facts as to services offered, prices charged, and results achieved. So, too, adequate grievance redress machinery must be provided. There must be mechanisms for consumers to be heard and through which "professional courtesy" cannot bury or whitewash complaints. Similarly, licensing procedures must be changed to serve the purpose of producing qualified practitioners in sufficient numbers to meet the public's needs, rather than serving to establish and protect the guild interests of the practitioners.

With a larger portion of the work force engaged in providing services, with more of the Gross National Product in services, and an increasing proportion of government expenditures at all levels involving the provision of services, improving their quality and efficiency is a benefit to everyone--services providers, services consumers, and taxpayers. The

more active engagement of the consumers in the production of human services is the key to such benefits.

Conclusion

Consumer education in the human services is concerned with making consumers better informed, more efficient, and more satisfied. At the same time, it must work to make providers more responsible and efficient, and thus to increase consumer satisfaction.

Certain factors are unique to the human services and put consumer education in a special setting. There is a lack of clarity, broad consensus or adequate measurement of the services to be provided. There is an absence of a clear pricing or market test as an external control on performance or accountability. For the most part, too, the human services operate in a monopoly condition, in fact a twin monopoly, in that there is little or no competition for consumers and there are few if any alternative providers.

The situation is further complicated by (1) the role of the government as the provider of, and more frequently the payer for, these services; (2) the fact that human services are delivered by persons who profess (the root, of course, of the work professional) to hold highest the consumers' interests and as a result have been given governmentally sanctioned privileges; and (3) the deep personal importance and consequence of the human services (e.g., one's own health, one's children's education). To a considerable extent, the element of the adversary condition in the buyer-seller relationship is not recognized in the provider-user analog. In part, this is because of basic differing relationships but also it is a belief fostered by such "givens" as the role of the government as deliverer of human services; the professions of the providers; the personal risks to the consumer (one fears to antagonize the person ministering to your body or to your child's mind); the implicit prohibition on talk about cost as somehow not "nice"; and the obscuring of price issues as expenses appear to be borne by third parties or through taxes.

With the growing recognition of the importance of the human services as an area of concern for consumer education, there are two broad areas of priority for the coming period. We must both examine the apparent traditional operating assumptions or premises of consumer education (viz. individual as the target, heavily rationalistic, product-focused, class-based, pro-consumption) as to their appropriateness re the human services, and within the human services we need to identify initial priority areas. These include: (1) learning what kinds of information are important and how they can be obtained and disseminated; (2) the measures of quality and of price; (3) how the value achieved through market mechanisms can be achieved in the human services while they retain the special character of the helping relationship; (4) the special issues in particular services fields such as health with its mixed system of delivery, complicated

payment schemes, and the object of growing national attention as costs escalate and plans for national health insurance develop; (5) the special issues of particular population groups like low-income persons, youth, olders, the handicapped, women; (6) the special issues in such new services as those for the dying; (7) the roles of providers and the delivery systems; and (8) the relationships between consumer education and other forms of consumer participation in the human services.

This is a difficult task but one which requires attention and which will benefit consumers and providers alike.

ABSTRACT

POSTSECONDARY EDUCATION

Dr. Roger Swagler**

Student problems as consumers of postsecondary education have become magnified in recent years. An analysis of this dilemma can be limited to:

1. identifying the characteristics of student-consumers which are unique to the group and which require special consideration;

2. exploring the constraints which those special characteristics impose, with particular reference to information and choice.

Students as consumers should consider:

1. education as investment;

2. social interactions;

3. short run goals.

Student information needs involve:

1. search;

2. experience;

3. credence.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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ABSTRACT*

THE PRICE OF A WARRANTY

Dr. W. Keith Bryant and Dr. Jennifer L. Gerner**

Both the provisions of warranties sold with refrigerators and their physical attributes vary among brands and among models within brands. This variation allows the prices of refrigerators to be decomposed into implicit market prices for each physical characteritistic and each warranty provision. An implicit market price is defined to be the effect that the presence a particular feature has upon the price of the refrigerator. The decomposition was done by means of hedonic price analysis using the suggested list prices for 1975 of 156 models of refrigerators. Estimates were able to be made of average implicit market prices of two warranty provisions, six physical characteristics, and thirteen brands. Estimates were also made of the variability of these prices in the market.

The two warranty provisions for which estimates of their average implicit market prices were made are: four years of parts and labor coverage in addition to the basic one year parts and labor coverage, and nine years of parts coverage on the compressor over and above the basic one year coverage. The estimates of the average implicit market prices of these two provisions were each compared with: (a) the cost of a service contract for a similar period; and, (b) estimates of the present value of the expected cost of repairs on the assumption that the owner pays cash for them as they arise. The comparisons reveal that the mean implicit market prices of the two provisions are higher than the equivalent service contract costs. The cost of an equivalent service contract is, in turn, much higher than the expected costs of repair assuming that the owner pays cash for the repairs as they arise.

The variability of the implicit market prices of physical features, warranty provisions, and brands are also examined for clues as to the potential benefits from comparison shopping. The benefits from shopping for the lowest price appear to arise mostly from shopping for warranty provisions rather than physical characteristics. In addition, one can obtain price bargains by comparison shopping among models of the same brand.

The results of this study cannot be extended to other appliances. The sizes of the mean implicit market prices and the relationships among them are likely to change from year to year as supply and demand conditions change. The techniques developed in the paper, however, may be generalized and used on other products.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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SERVICE LIVES OF MAJOR APPLIANCES

Dr. T. J. Wang*

Information on retention and on disposal of major household appliances will assist in determining both the demands of consumers and the requirements of manufacturers for product durability. Preliminary results of studies in progress indicate that almost all managers of rental properties tend to retain the original appliances in their properties as long as possible, whereas a significant number of individual home owners dispose of appliances after only relatively short periods. Efforts are under way to develop data on several-year operating costs of appliances so that consumers might be able to use life-cycle costing considerations in the purchase of new appliances.

Recognition of the finite limits of our natural resources has stimulated efforts to improve the reliability, efficiency, and durability of consumer products. Reliability of a product implies freedom from excessive repairs. Efficiency means low energy consumption per unit of output. And durability means resistance to wear out.

The consumer is directly affected by, and understandably concerned about, reliability. Spasmodic equipment breakdowns and servicing requirements can be both frustrating and expensive; and the distress is enhanced when service labor-and-parts costs outpace most inflationary trends as they have in recent years. Also, the consumer is obviously interested in efficiency as this implies holding down mounting utility bills. The consumer concern for durability is less evident, however, particularly when technological advances may seem to render a product obsolete before the end of the product's otherwise useful life.

Incidentally, the meaning of product life can be confusing because old products do not always expire in unambiguous ways. Consider the case of the farmer who boasts of having used the same axe for the past 45 years. During these 45 years the axe has has six new handles and four new heads. By component replacements or by repairs as necessary the useful life of a product can be made to be whatever we want it to be. Of course, in many cases repair or component replacement may not justify the expenditure, especially if a wholly new unit is available at a comparable cost.

Just how long should a product's life be? There is not a simple answer to this question. The concept encompasses matters of economics, sociology, engineering, and politics, including considerations of national resources, employment, prices, profits, and even waste disposal. The Center for Consumer Product Technology at the National Bureau of Standards is studying some of these issues as they relate to major household appliances from kitchen ranges and refrigerators through furnaces and air conditioners.

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Relative to the acquisition or disposition of major appliances the consumer makes substantive decisions on at least two occasions: (1) at the time of purchase, regarding which model to buy, and (2) on the occurrence of some critical event, regarding whether to retain an existing appliance or to replace it with another one. The critical event might involve a breakdown of the existing appliance, a household move to a new location, the opportunity to buy a new appliance at an attractive price, a change in fmaily size, or simply a feeling that the old machine is about worn out.

Literature searches have been unsuccessful in locating a serious study of how U.S. consumers decide on retention or disposal in critical-event situations. Such information on consumer decision making is essential in order for Government officials to inform consumers and to advise manufacturers on durability requirements in the national interest. Accordingly, the Center is currently undertaking a determination of consumer behavior patterns in appliance disposal. By the next ACCI conference we expect to have results from investigations on this item and on related matters of appliance operating costs.

For now we can say that at least in many instances the rationale for appliance disposal differs markedly for appliance owners depending upon their motivations. Apartment owners renting out dwelling units with appliances have a profit motive. Individual appliance owners may be more motivated by convenience considerations. In general, owner-renters prefer to hold appliances as long as possible considering the tradeoffs of operating costs, tax benefits, and competitive pressures. The Institute of Real Estate Management, which represents managers of large apartment complexes throughout the country, reports that in a survey of its members the most desired characteristic of equipment was indicated to be life expectancy. On the other hand, a significant fraction of owner-users appear to discard products for newer products with more pleasing aesthetics or with novel features, and they may be only secondarily concerned with long service life. One of the major groups of early disposers consists of persons who move and who wish to update the interiors of their new residences. According to the latest (1970) Census approximately 15 million households in the United States move each year.

The compilation of extensive data on consumer attitudes and on appliance operating costs will contribute to an understanding of the factors that determine appliance life. Also, certain of these data will provide inputs for life-cycle costing, which, in principle at least, might give consumers the opportunity for improved value-judgments in the purchase of new appliances. The concept of life-cycle costing involves summing the ownership costs (initial purchase, maintenance, repair, energy, disposal, etc.) over an expected use period. Figure 1 illustrates how the elements of life-cycle costing can be used to show several years of projected, cumulative-average, annual costs for an appliance in an idealized situation.

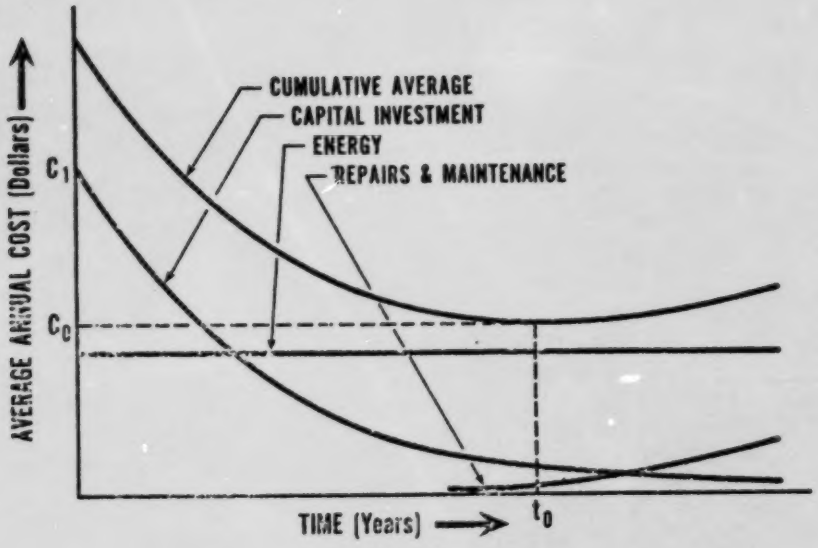

Figure 1. Projected cumulative average costs for an appliance

Computation of the average annual cost entails dividing the cumulative ownership costs by the number of years of installation. The cumulative aspect of the average relates to its update each year in the manner of a baseball batting average, which is updated after each occasion at bat. Here the appliance cost-averages are construed to have been updated from previous records at each successive year of service. The overall average cost, shown by the top curve in the figure, represents the sum of the three component averages--capital-investment, energy-cost, and repair-and-maintenance-cost--at any point in time. In each case the data represent long-term forecasts based upon extrapolation of historical records. Such forecasts can be expected to be within acceptable tolerances for most major appliances, because, with the exception of television receivers, the basic designs of major appliances have stabilized over several decades of production and use.

The interesting feature of the overall-average-cost curve is the minimum at the time designated as t_0. The time, t_0, is the optimal economic life of the appliance since to hold it for a longer period or to dispose of it earlier would involve an average annual cost in excess of the minimum value, c_0. If on the occasion of purchase of an appliance the consumer had information on the projected overall-average costs for all models being considered, the consumer could then make a choice on the basis of comparable minimum, projected, average costs, c_0, for the different models throughout their individual service lives instead of on the basis of simply comparable selling price, c_1.

Such a costing analysis has been used extensively in guiding large-scale procurements and replacements of group items, such as fleets of vehicles, in particular, where operators of fleets control their use and conduct their own maintenance and repairs. However, the general absence of control on activities and the resulting difficulty in predicting costs makes application of this procedure more complex for use with individual household appliances.

A compromise course might emerge if a standard laboratory test procedure can be established that specifies a variety of different sets of operating conditions on which forecasts of operating costs could be predicated. This is one direction in which the Center is aiming at the present time. If such a laboratory test procedure can be developed, the consumer would then be able at least to make ordinal rankings of competing models under those conditions that most nearly fit the consumer's use pattern.

An initial gesture toward giving the consumer operating-cost information is already being implemented through a Federal program that mandates the labeling of major appliances for sale with their expected annual energy cost. The first of such labels should appear on appliances in stores about a year from now.

One problem in the acquisition of service-life data for life-cycle costing is the extended period of time, possibly ten years or more, required to obtain complete records on the performance of a particular appliance type. Accelerated laboratory tests attempt to reduce this period of observation to weeks or months by operating appliances as much as 24 hours a day under high loading conditions. Unfortunately, accelerated laboratory tests fail to simulate certain of the unique breakdown patterns that characterize actual consumer use. A procedure of intermediate duration that could help to bridge the transitional gap between long-term, family use and accelerated, laboratory testing may evolve from some field studies that are currently being initiated. Records on repairs have been collected in military living quarters from high-usage appliances that show a large number of breakdowns in a few years time as a result of the high usage. These and similar records from other multiple-family-equivalent situations could be correlated both with time-compressed repair data from single-family households and with time-expanded repair data from accelerated tests. Differences in the service trends among the three types of operation would prompt investigations into the causes for these differences. With suitable compensation for the observed differences it may be possible ultimately to develop adequate projections of appliance performance through data from accelerated tests in coordination with short-duration, multiple-family studies, circumventing the need for long-term observations of routine household operations.

WARRANTIES-TEXTILES FIELD

Ms. Delores Wesley Lee*

Consumers have a right to expect quality in products they purchase. A warranty program established by one manufacturer is explained. Further, the effectiveness of the aforementioned program is denoted.

Most consumers simply want a reasonable return for money invested; not a product that falls apart or, worse yet, is defective at the time of purchase. But they have often been denied this wish. President Kennedy cited the need for consumer protection in his message to Congress on March 15, 1962 when he said,

> If consumers are offered inferior products, if prices are exorbitant, if drugs are unsafe and worthless, if the consumer is unable to choose on an informed basis, then his dollar is wasted, his health and safety may be threatened, and the national interest suffers.

At the same time, Monsanto was determined to maintain its quality image in a way that would ultimately benefit the consumer. It was concerned about inferior products as were other reputable producers. The result was a revolutionary one which has proven to be an effective way to assure that the consumer is getting what he pays for. "You get what you pay for or Monsanto pays for it" became the backbone of the first major warranty program in the soft goods field. A landmark in consumer protection, the Monsanto Textiles Company Wear-Dated warranty simply assured the purchaser that if defective merchandise was returned, postage prepaid, along with the sales slip and Wear-Dated hang tag to Monsanto, it would be replaced or a full refund of the purchase made. The program has grown in scope and stature. In 1976 alone, 92 million Wear-Dated hang tags were issued. The program is unique because the fiber producer deals directly with the consumer. There is no middle man. No manufacturer. No retailer.

Why has it been so successful? An effective warranty should be a mix of the following:

Consistent assurance of product quality;

Warranty integrity;

Prompt and courteous claim handling;

*Monsanto Textiles Company

Apparatus for keeping the customer informed of the status of his claim;

Learning from mistakes.

No matter how efficient and diligent industry is, there is no way to guarantee that all products will be perfect. However, much can be done to assure product quality. Take performance standards, for instance. They must be ungraded continuously and rigidly enforced. At the same time, the standards should be realistic.

In order to make excellent product assurance, a garment must function satisfactorily under normal wearing conditions. It must be durable, comfortable and protective. It must be appealing, too.

Industry is doing extensive testing and research which benefits the consumer. The consumer is also benefiting from warranties, but what does the consumer really think about warranties? Does he think about them at all? Does he even care whether they exist? A recent study which has never been published focused on consumers' perception of warranties. Executed by National Family Opinion Research, Toledo, Ohio, it took place late in 1975 prior to the enactment of the Magnuson-Moss Warranty Act. It is a direct mail survey of 954 consumers with a national representation of households, geographic distribution, age of home maker and education. The study revealed whether or not consumers were satisfied with fiber-based items such as apparel, upholstered furniture, carpets and tires. When asked whether or not they were satisfied with their purchases, the results indicated that on the average about a third were less than satisfied. Satisfaction ranged from a high of 42 per cent for children's wear to a low of 29 per cent for men's wear.

When asked about categories warranted, the respondents exhibited confusion. They were not sure which items were actually warranted. For example, children's wear which is more than likely to be warranted, received a lower score than upholstered furniture which traditionally had not been warranted.

So what does it all mean? In the soft goods field, there is a continuing need for effective warranty programs. Last year more than 92 million individual warranties were issued by the Wear-Dated program. This represents an increase of approximately 9 per cent over 1975 and 20 per cent over 1974. Through constant vigilance, claims were reduced by 26 per cent in 1975 and 10.4 per cent in 1976.

Presently, other fiber producers besides Monsanto are offering warranty programs and one licensor is offering a product assurance program. Manufacturers and giant merchandisers, too, have ongoing warranty programs. The consumer has responded favorably to these efforts. It is logical, then, to assume that warranty programs in the soft goods field will continue. All benefit, no one loses.

IDENTIFICATION OF CONTENT AND FOCUS

Dr. Gayle Royer Trujillo*

Consumer education and economic education have become viable parts of school curriculums. This investigation attempts to determine the relationships between these two areas. The results of the study indicate many similarities do exist. However, many modifications must occur if consumer education and economic education are to expand in quality and quantity. The author suggests that, initially, changes must be evident in teacher training institutions.

Recent decades have produced growth and development in both consumer and economic education. As consumer education gained recognition, it influenced the thinking of economic educators. As economics became more comprehensible, consumer education gained insights into the problems and roles of the consumer. Research conducted by the staff of the Inter-America Research Associates, addresses the need to more fully define the influence exerted by these two subjects on each other. Specifically, the research explores the interrelatedness of consumer education and economic education. It is our position that consumer education and economic education were closely related, that there was a large area in common, and that we not only did not know the common elements, but that there was no general agreement regarding the commonality of the two fields on the part of educators and school administrators.

In the past, both consumer and economic education have been characterized by a vagueness of content. The review of literature shows that educators have struggled with this problem for several decades. We are not that much closer to a solution today. The problem is that consumer education and economic education have developed under different stimuli and in different environments, including non-classroom settings. Within school systems, the problem is complicated by the fact that state legislatures, state education agencies and some local school districts have taken various types of action in order to encourage programs in either economic education or consumer education at the K-12 level. These programs reflect a great diversity in philosophy: everything from mandated one-semester courses to mandated proficiency testing to integrated programs at the elementary and/or secondary levels.

The Office of Consumers' Education is committed to consumer education and its relationship to economic education. In line with this commitment, InterAmerica was contracted to determine the interrelatedness of economic education and consumer education, and, second, to assess the content of educator and student materials used during the past ten years.

*Project Director, InterAmerica Research Association

In order to achieve the first objective of this study, that of identifying the interface of economic education and consumer education at the K-12 level, it was necessary to define the two subject areas. The following were used as working definitions for the research:

> Economic education is instruction in the facts, concepts, principles, theories, issues, and problems of economics. It should provide the student with an objective, non-political set of analytical tools which can be applied to current economic issues both at a personal and at a societal level.
>
> Consumer education is an effort to prepare persons for participation in the marketplace by imparting the understanding, attitudes, and skills which will enable them to make rational and intelligent consumer decisions in light of their personal values, their recognition of marketplace alternatives, and social, economic, and ecological considerations.

We employed a staff of consumer and economic educators. To provide additional professional input into the effort, a seven-member panel was selected to represent the various interests in consumer and economic education. The staff first developed a set of concepts, including all those likely to be included in K-12 programs for consumer education or economic education. They further coordinated the efforts of the review panel as they worked toward achieving consensus of the content of the two subjects.

The consensus-seeking process consisted of a modified Delphi technique in which the panel reviewed the materials three times in an attempt to reach agreement regarding the placement of concepts in economic and/or consumer education programs. The panel did not meet face-to-face because of resource restrictions and their own time commitments. Therefore, it was necessary that they interact as much as possible without actually meeting. A full review of the procedures used in the study is available upon request.

The educator and student written materials which were collected and assessed for content during the study included a representative sample of research task force reports, conference reports, position papers, textbooks, leaflets, pamphlets, reference books, workbooks, teaching aids and curriculum guides. While a special effort to include written materials for special audiences was not established, we did note that there are few such materials available for a study of either consumer education or economic education.

The final product of the study was a position paper which set forth the method and the findings of the study and the conclusions and implications which were drawn. This position paper serves as a basis for further dialogue on the model, its contents, and the content of the two subjects that were studied. Copies of the paper and a set of visuals, including slides are available for selected purposes from the Office of

Consumers' Education. It is hoped that persons will view this effort as a means of encouraging dialogue on economic and consumer education at the K-12 level. This was not intended to be a definitive effort, but rather an initial exploration of the differences in thrust between the subjects as viewed by the panel and as taught in the schools.

One of our findings indicated that content areas which belong to both economic education and consumer education are quite large. This supports the opinion of many professionals who believe that economics is one of the most important root disciplines for consumer education.

The study of both consumer and economic education begins with identification of resources which limit the ability of consumers and producers to manage affairs to achieve their goals. The extent of ownership of the resources determines the level of income available to producers and consumers. It is appropriate, therefore, to examine the types of income that are generated through resource ownership. The existence of limited resources (and, therefore, of limited income) constrains the ability of consumers, producers, or workers to achieve their goals. Resources is the key beginning topic for a study of either consumer or economic education. Determinants of Resources is an amplification of one portion of that topic. Consumer, producer and labor decisions are covered as objective-maximizing approaches to the use of scarce resources. A detailed study of consumer decision process is appropriate to consumer education, while the detailed study of production and labor are relegated to economic education. It is obvious, however, that some understanding of the relationship among the three approaches is necessary in both subjects. A study of consumer resource management can follow the study of the consumer decision process, but is not crucial to an understanding of the remaining concepts.

Following the study of the decision-making of consumers, producers and workers, consumer education and economic education interface again with a study of markets, institutions in which prices are determined, therefore permitting exchange to occur between consumers and producers who are seeking to obtain the most satisfaction from their resources. The model recommends examination of markets from a local, national, and international perspective. For various reasons, all levels of government intervene directly in the operations of these markets: interventions are examined in the model. The model further recommends exploration of similar concepts in alternative economic systems and for other time periods.

An ultimate objective of both economic and consumer education is a citizenry capable of analyzing contemporary social issues and developing individual and social policies to deal with them. This model ends with a section on contemporary social issues, the treatment of which requires an understanding of these previous concepts. The category dealing with consumer interests is an illustration of the development of one of the issues most germane to a study of economic and consumer education.

This version of the model shows the broad categories. Within those categories are concepts which are interfaced and other concepts which belong to one or another of the subjects exclusively.

In general, the panel's interpretation of consumer education was much broader than the content normally included under that title at the secondary or college levels. All the obvious content was included. In addition, however, the panel included a large body of knowledge which interfaces with economic education. Many of these concepts would receive their major coverage under the rubric of economic education, but are also of great importance in consumer education. The panel's interpretation of economic education was generally in accord with the content normally included in that subject at the secondary and college levels. In some particulars, the panel may have included concepts not normally covered at the K-12 level, such as those concepts concerned with labor, economic history, and social issues.

The discussion to this point has intentionally excluded elementary programs. Materials appropriate to various courses at the elementary level were collected to insure a sample representing the variety of interests, One of the interesting findings was that most of them focused on the interface area--i.e., were not intended for an economics program or a consumer program. The materials were very broad in their coverage; but the concepts specific to consumer education or to economic education were included infrequently. The model and our impression of teaching and learning patterns were compared with the adult functional competency test developed at the University of Texas at Austin. In general, the adult functional competency test attempted to measure a group of skills termed consumer economics, but which, according to our panel, appeared to be primarily the buymanship aspects of consumer education. The test report indicated that there was a very low level of functional consumer competence among those who had no more than an eighth-grade education. This leaves us with a question regarding the extent to which elementary education meets the needs being tested. Elementary students are not being exposed to those specific consumer education conepts that were measured in the adult functional competency study.

An analysis of social issues is the goal of both consumer and economic education. A significant finding of our research was that these issues were excluded from materials for both consumer education and economic education at the K-12 level. The issues which were most necessary for economic education were pollution, poverty, unemployment, economic development, war/defense, and aging. At the secondary level, our assessment of written materials indicated that economic education covered, basically, only the concepts of pollution and economic development. The contemporary social issues which were identified through the study as most necessary for consumer education were pollution, poverty, distribution of food, and aging. None of these issues was included in materials to any significant extent at the secondary level. One can infer that our definitions of economic education and consumer education are broader and more comprehensive than either of the subjects as they are being taught at the K-12 level. It is extremely unfortunate that one of the primary gaps identified is the lack of coverage of contemporary social issues.

If social issues are excluded from written materials for consumer and economic education, can we assume that consumer and economic aspects

are excluded from materials designed for use in the study of specific problem areas such as environmental education? Our examination of written materials indicates that this is probably so. The interrelatedness of economic and consumer viewpoints with issues of social concern is not being realized.

In general, the panel agreed very closely on which concepts were the very most necessary for economic education, but tended not to agree on which concepts were the most important for consumer education. This raises questions for our consideration: Does it indicate that there is less similarity in their views of consumer education, or does it simply indicate that the panel needed more time; more interaction? If it indicates less similarity in their views, why is there this lack of similarity? Could it be first because consumer education, in general, has not been as well defined in the past as has economic education? Could it be that most of these people have not received formal training in consumer education and, therefore, did not already have a stereotyped view of what consumer education was? Could it be that they were not familiar with consumer education at the college level to the same extent that they were familiar with economic education at the college level and therefore the trickle-down effect did not occur? Or could it be that for an area of study like consumer education, we are likely to be faced in the future with vastly different perspectives from different types of people in the area? Is it possible that just by the nature of the subject these different types of people are going to differ on what is important? If there is no cohesive group of supporters, then how are we going to go about developing the subject? How do we bring these diverse interests into a cohesive group? Or, how do we face the fact that we have diverse groups, and move from there to meet all of their needs?

From the review of the materials and curriculum guides for the elementary level, we can conclude that students at that level may receive the early training in the interface concepts that our panel envisioned. The real difference in coverage is beyond the elementary level. Economic education programs continue to build on that base of interface concepts to present the specific economic education concepts and additional interface concepts. Consumer education programs disregard the base of interface concepts and emphasize the narrow area of concepts specific to consumer education. Consumer education programs do not capitalize on the fact that students have some of these understandings; programs do not build on the elementary learnings. In general, classroom teachers rely on textbooks, curriculum guides, and their own experiences and training in a subject to assist them in program development. Most teachers of consumer education and of economic education do not receive the college training necessary to interpret the interface as part of consumer education or to see the interrelatedness of this model as a whole. We must then determine how best to improve teacher training so that we can improve student education at the K-12 level.

A question should be raised at this point: To what extent is training in economics and consumer education necessary and/or helpful as part

of a general teacher education program regardless of subject specialty, regardless of teaching level? If we advocate economic education K-12, consumer education K-12, do all teachers at the K-12 level need some training in this area? There are, of course, restrictions to adding a course to a teacher's program, but this is something that we need to consider.

Our preliminary efforts to delineate the parameters of economic education and consumer education yielded a model which indicates the concepts appropriate to each of these subjects individually and to both subjects in common.

College level consumer materials cover the concepts which are specific to consumer education and exclude the interface concepts. College programs are probably very similar to the materials. Teachers leave college with an impression of consumer education which does not include those interface concepts. Consumer education curriculum guides, following the pattern of college materials, cover specific consumer education concepts and exclude interface concepts. Secondary level consumer materials will not stimulate teachers to plan consumer education programs as our panel envisions thems. Teachers will receive information, materials, guidance in the areas of specific consumer education concepts, not the interface concepts.

Thus, the three main areas of influence in K-12 program development (teacher training, textbooks, and curriculum guides) are all very narrow in their coverage of consumer education. If change is to occur in consumer education content at the K-12 level, it must be primarily through retraining of teachers, change in materials, and curriculum revision. Curriculum revision is the most accessible and timely alternative for bringing about such change in consumer education. Only when such change occurs will all students at the K-12 level receive the kind of training in consumer education that was envisioned by the panel. The pertinent question is: How long will it take before we can bring about change to implement consumer education as it is conceived by the panel, if that conception is indeed supported by future research? How soon can students expect to receive the broad spectrum of consumer education prior to high school graduation?

A parallel analysis of the situation with economic education leads us to believe that perhaps economic education requires a different kind of adjustment than does consumer education. College level economic education materials, with a few minor exceptions, presented concepts similar to those which our panel felt should be covered at the K-12 level. Thus, one might assume that a teacher who had taken an economics course at the college level would have a proper mind-set for the inclusion of those same concepts at the elementary or secondary level. But in the late 60's, researchers found that only when a teacher had taken five semesters of economics was there any appreciable difference in test scores of economic understanding. The research substantiated that introductory economics courses had little influence on teaching practices. How much economics training is required for teachers at the

elementary and secondary level? In most cases, teachers are required to take an introductory one or two semester course at the most.

Secondary consumer education materials, with a few minor exceptions, presented concepts similar to those which our panel viewed as economic education. The secondary programs, then, are probably very similar to the college level programs. The significant question to be considered is: Should college level economics courses serve as a model for programs in economics at the elementary and secondary level? We do not know the answer. It is an area that needs further research. Economic education curriculum guides suggest a less broad coverage of the topic than do the materials for student use at the secondary level. Perhaps textbooks are being produced and updated faster than curriculum guides. Or, it might be that the area of need is in curriculum development for secondary economic education courses.

Consumer education has received a great deal of support for curriculum development, specifically through vocational funding. Economics, perhaps, has not had an equivalent impetus. Several state mandated programs in economics education are not accompanied by curriculum guides. This is perhaps an indication that the resources have not been available. In fact, it may indicate that mandates at the local level are less effective than federally mandated and supported programs which are reinforced and confirmed at a local level.

In any case, we can conclude from the data that we were able to collect, that economic education has the potential and the tools for achieving a program very similar to that suggested by the panel. A major drawback to such achievement may be, again, teacher training. The preparation of secondary teachers to undertake economic education programs which fully meet our definition is questionable.

It would appear that teacher training is a key aspect of change in both consumer and economic education.

If we build on the base that students have received at the elementary level, and if we broaden our image of consumer education to encompass the view held by the panel, and if we maintain a broad view of economic education at the elementary and secondary level (including stronger focus on social issues), then we will need some very signficant changes in teacher training. First, we need to determine which subjects include the concepts at the different levels. It is not sufficient for future researchers to consider the requirement for a teaching credential in economics in each state if the teachers who have the most frequent opportunity for teaching economic concepts are not credentialed economics teachers. We must determine at what level these concepts are being taught.

TIME FOR A CHANGE

Dr. Lucy B. Creighton*

Consumer educators need to take a hard look at the basic premises of their field. In spite of fifty years of work, consumer education has made little impact on school curriculum, efficiency in the marketplace, or the sense of satisfaction among consumers. The reason for this is that consumer education has tried to be all things to all people. Consumer educators need to define their field more carefully and realistically and to do their homework about consumer problems that lie outside the traditional definition of individual consumers seeking their own satisfaction in the marketplace.

All of us today take satisfaction in the fact that there is an increasing interest, and, just as importantly, an increased funding for consumer education. Through a variety of state programs, some of which you are probably involved in, and through the newly funded Office of Consumer Education in the Department of Health, Education, and Welfare, there is a push for more consumer education at all grades in the public schools and also among various target groups like retired and other fixed income people, bilingual and bicultural groups, and among low income households. The stated purpose of this education is to make people more "effective" in the marketplace and to help them make "rational and intelligent consumer decisions." The implicit assumption here is that this will make people better off.

Consumer education with this purpose has been around for nearly forty years--the first courses were taught in the days of the Great Depression--and in spite of spurts of interest over the years, consumer education does not seem to have made much impact. It has not made much impact in terms of its acceptance as a hard core subject for the school curriculum, or in terms of a more efficient marketplace, or in terms of a greater sense of satisfaction among consumers.

There are three general problem areas that have worked to limit the impact of consumer education. The first problem area has to do with the fact that consumer education has come to mean all things to all people. The result is that we seem not to do any of it very well.

Public consumer affairs offices in state and local governments push for consumer education because they are deluged with calls by individual consumers for specialized knowledge and help about auto purchases and repairs, terms of credit, and a whole variety of problems between consumers and the business and governmental bureaucracies they deal with. Business, on the other hand, sees consumer education as a means to gain public understanding and support and thus to forestall the demand for

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further government regulation. Legislators vote for consumer education because it seems to respond to public concerns about inflation, business power, and the worth of individuals in a mass society. Consumer organizations promote consumer education as a vital part of their goal to increase consumer awareness and power. Others see consumer education as a remedy for the abuse of credit which results in increasing numbers of individual bankruptcies. Consumer education is viewed nearly everywhere as a way of helping low income and other disadvantaged groups. Finally, consumers see consumer education as a way of learning all there is about spending and buying and about consumer problems of every variety.

This "all things to all people" is clearly indicated by the definition of consumer education promulgated by the U.S. Office of Consumer Affairs:

> Consumer education should help each person understand his own value system; develop a sound decision-making procedure in the marketplace based upon his values; evaluate alternatives in the marketplace, and get the best buy for his money; understand his rights and responsibilities as a consumer and as a member of society; and fulfill his role in directing a free-enterprise system.

It may make funding harder to get, but we can't do all this in one course because everyone wants something different. The public consumer affairs office wants a course that will make consumers as knowledgeable as the specialists they deal with in automobile repairs, tenant-landlord relationships, and negotiating credit and other contracts. Business wants a course in the free enterprise system. Consumer organizations want a course in consumer advocacy. Poor people and people on fixed income are more interested in more money than they are interested in how to spend what they have. And consumers, because they know there is something called "consumer education," think there is a single quick and sure way of coping with consumer problems and learning exactly how to be a "wise consumer."

The point is not that these kinds of courses are unimportant, but that as consumer educators our first responsibility is to help consumers cope and feel more satisfied about what they have in the way of material things. And there is no way we can do that and all the other at the same time.

The second problem that has limited the impact of consumer education relates to the fact that it has been going on the assumption that there is a discrete part of our lives in which we act as "consumers" and in all the other parts of our lives we act as something else. But there is very little in our lives today that can be done without a decision to spend money, and no one course can give us information about everything we do. As specialization and division of labor have continued, more and more of what we have is produced by someone else and comes to us through the market with a price tag on it. Whether we are talking about basics like food and shelter or about the use of leisure time, or about buying care for the young and aged and sick (something which used to come via loyalty and love)--they've all got a price tag on them, and rational consumers are supposed to decide whether they are "good buys" or not.

Just as significant as the ubiquity of consumer decisions is the complexity of such decisions. But how can we assume that consumer educators, much less consumers themselves, can gain a level of expertise to know how to make rational decisions about, say, new medicines and medical techniques, additives to food, and the intricate legal language of credit and contracts?

In one sense consumer education has recognized the breadth of the problem. The Education Division of Consumers Union, for example, holds that:

> consumer education seeks to provide consumers with the information and skill they need to deal effectively with the institutions, agencies, corporations, social conditions, and economic and ecological problems that affect them daily.

But if you could do all that, you would have little else to worry about!

The third problem has to do with the image most people have of what a consumer is. People are torn between the kind of consumer they think they ought to be and the kind they would like to be. The ought suggested by consumer education indicates consumers ought to think carefully about spending money; they ought not to spend any more than they have to; they ought to look for the best buy. At the same time, there is obviously in our culture another side of spending--and this shows up particularly in advertising--that says consumers like to spend freely, that spending is easy and fun. But consumer education portrays the good consumer as a penny-pincher, an economizer, a think-before-you-buy person. And this does not sit well in a society that puts a premium on exuberant spending and confers social status on people who can buy the higher priced of two similar goods.

Americans want to feel "affluent" and exciting, but consumer education projects a very different image of what a "wise consumer" is. Thus consumer education has not been very effective because it cannot enlist the interest and allegiance of its students. When consumer educators talk, very few consumers listen.

What should we do about all these things that are wrong with consumer education? Well, in general, we should try some different tacks. People are less worried about how they spend their money and what they get for their money than they are frustrated by what they see as the complex and alien world in which they do their spending. Thus, students should have some insight and some understanding about how our society is constructed and how it generates the kinds of lives we lead. This is basic because only when you understand how something works can you begin to do something about it. The basic course outline would be very simple, but it would exemplify a kind of approach which would greatly enlarge the perspectives that people have on their lives and on the consumer problems with which consumer education tries to deal. To put it in verbal outline form, there are two basic processes at work in modern industrial society and three results of those processes which do so much to share our lives.

Two basic processes in modern industrial society are those of the division of labor and the development of technology. Division of labor means not only that production processes are broken down into smaller and smaller parts, but also that more and more of what we consume is produced for us by others. It is not only that the tasks of "the butcher, the baker, the candlestick maker," like Adam Smith's pin factory, are broken down into smaller and smaller units, but that we buy, rather than produce for ourselves, food, clothing, health care, cleaning services, care for children, not to mention entertainment, transportation, housing and so on.

As for the development of technology, it has gone hand in hand with the division of labor leading to more and more complex specialization and an increased scale of production in terms of both production processes and the kinds of output. Everybody is a specialist; most people work in large organizations; and most of the goods and services American consumers have are the result of specialized mass production. Both the producer and the goods produced involve a technology that to the outsider is increasingly complex and difficult to understand.

The result of division of labor and technology is what we call economic growth--increased output and incomes, a higher standard of living, affluence, the American way of life. But part and parcel of this economic growth have been three "results" of the division of labor and the development of technology--bureaucracy, monetization, and interdependence.

Bureaucracy is not the red tape in Washington. Bureaucracy is the complex and hierarchical administrative structures, both private and public, necessary to coordinate the specialized productive processes that result from technology and the division of labor. Sooner or later, Adam Smith's pin factory would have to have a manager and secretaries, foremen, payroll clerks, shipping clerks, and, if they were ever to improve the pins or add a new line of products, they had to have a Research and Development Department. General Motors is a bureaucracy, also Safeway, the Post Office, the state welfare services, and your local school system.

Monetization is a direct result of division of labor. There has to be some efficient way of exchanging an individual's specialized output for all the goods and services produced by other specialists. And as more and more in our lives comes to be produced by others, more and more in our lives comes to have a money tag on it. For example, if a mother has someone else take care of her children, then the care of the children bears not only love but a dollar sign as well. And this monetization is compounded in the United States by our double standard about money: we are willing to say money counts, but we are not willing to say it is the only thing that counts.

Interdependence is the opposite of independence or of self-sufficiency. As specialization has grown and as the complexity of our society has grown, we are more and more dependent on others; and we are less and less able to fend for ourselves by ourselves. Our individual lives are necessarily bound into a social whole.

Here are a few examples of what this kind of framework can contribute to the discussion of consumer problems.

1. It can help consumers cope with the complex knowledge which is the basis of production in today's society. Consumers will understand why they cannot know everything. It just may be that this kind of understanding will generate the need for more consumer specialists and less generalized knowledge on the part of consumers just as has increased sophistication on the part of the public generated a demand for more medical specialists. We cannot teach, nor should each consumer expect to know, everything about everything in a world organized by technology and specialization.

2. Some understanding of bureaucracy and its relation to specialization, technology, and mass production may not make bureaucracy any more accessible to the individual, but it will help people to see why there are bureaucracies. It just may relieve the frustration, even if it will not solve the problem, for the consumer faced with the clerk at the store who is powerless to do anything but listen to you argue, or the hospital that may be medically efficient but is seemingly oblivious to the personal concerns of its patients.

3. A discussion of economic growth can suggest the trade-offs between a higher standard of living and bureaucracy and the other complexities of society. It can also help people to discuss the trade-offs between the benefits of mass production and the costs of having to deal with the very large corporation in the new industrial state.

4. An understanding of the monetization of society may help people to deal with what has come to replace sex as the intimate subject--money. Now that money has come more and more to be "a measure of all things," we need to try to understand its function in our culture--both in terms of things and in terms of people. We may be reared to believe that everyone is equal, but most of us know, in the sense of knowing "how it really is," that what really matters, in terms of who people are, is what income they have. No amount of the conventional consumer education that deals with wise spending of what (little) you have can overcome this kind of problem for poor people.

5. Finally, and perhaps most importantly, this view of the framework of our society will help consumers deal with problems of <u>inter</u>dependency. Consumers need to realize that the increased levels of output and higher standards of living go hand in hand with division of labor and

> specialization that is the essence of mass production. We cannot be self-sufficient any more. Conventional consumer education posits the individual consumer striving for his or her own welfare. But in an interdependent world the most significant questions are not "How much do I get for my dollar?" but "How do I deal with inflation, unemployment, pollution, and the provision for social consumption?" These are problems of interdependence and they are not problems that the individual can do anything about. Yet they probably have more impact on consumer lives than an individual decision a person may make.

It is vital to take a hard look at the basic premises of consumer education and what we expect to accomplish. Consumer education needs to be more carefully defined in order to match performance to promise. Most importantly, consumer educators need to do homework about the whole set of problems that lie outside the traditional definition of individual consumers seeking their own satisfaction in the marketplace. Helping consumers to understand these kinds of concerns will do more to foster their well-being than will showing them how to stretch their dollars.

PROJECT SCAT

Dr. Jo Hewell*

The mission objective of Project SCAT (Skills for Consumers Applied Today) is to implement a comprehensive consumer education program at the secondary level (7-12). The approach used is referred to as the "solo-plex"approach (solo having to do with one, and plex having to do with collection). The program evolves around ten basic areas of consumer knowledge that have been identified as areas around which curriculum has been developed.

SKILLS FOR CONSUMERS APPLIED TODAY (SCAT)

Project SCAT is a federally funded (ESEA-IV-C) developmental project located in Osceola County, Florida. ESEA IV-C projects are exemplary or innovative endeavors which provide educators at the district level funds to plan, develop and field test creative and imaginative solutions to persistent educational problems which need resolution. Grant proposals are negotiated through a state office under highly structured and competitive guidelines.

Purpose

The Florida Legislature recognized the importance of consumer knowledge to individuals and passed an act cited as "The Free Enterprise and Consumer Education Act" which indicated that Florida schools shall conduct consumer education programs.

From this premise, objectives of Project SCAT evolved as follows:

1. To identify critical learner needs in the area of consumer education in the secondary schools.

2. To develop appropriate consumer education courseware for the instructional process in the secondary schools.

3. To design an instructional model for delivery of the consumer education curriculum in the secondary schools.

4. To implement and evaluate the instructional delivery system and the developed courseware.

Procedure Followed

Through a review of related literature, the technical expertise of consultants in the field of consumer education, university affiliates, and

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curriculum developers, ten (10) basic topical areas of consumer education have been identified as providing a basic body of knowledge for secondary school curriculum. These are:

1. Employment and the Consumer
2. Money Management and the Consumer
3. Housing and the Consumer
4. Transportation and the Consumer
5. Health and the Consumer
6. Recreation and the Consumer
7. Law and the Consumer
8. Communications and the Consumer
9. Ecology and the Consumer
10. Technology and the Consumer

Many of these topics are divided into a number of sections when appropriate to promote comprehensive coverage. The finalized SCAT kit consists of approximately 22 color-coded courseware packets which will include the teacher's guide and the student Packaged Activities for Learning (PALS).

The teacher guide adheres to the following criteria:

1. A learning map for each section which lists entry skills and developmental skills
2. The rationale for presenting the topic as an instructional unit
3. A Content Outline
4. A guide to materials description
5. Objectives keyed to content outline and PAL (Packaged Activity for Learning)
6. Introductory, developmental and culminating activity suggestions for group and individual implementation
7. Instructional aids composed of masters for transparencies and student activity sheets
8. Film Guide and Film Annotations

The student PALS adhere to the following specifications:

1. Entrance Test (multiple-choice questions)

2. Introduction

3. Answer Sheet (Entrance Test)

4. Emphasis on Skills: critical reading, vocabulary and math

5. Organized by characteristic statement areas which progresses through the basic presentation, vocabulary, activities and review

6. Exit Test (same generalization tested by entrance exam, different form)

The courseware designed for grades 7-12 is flexible and can be utilized to present a one-semester or a one-year course depending upon the particular need. Or the courseware can be integrated into the appropriate curriculum areas to project a comprehensive approach to promoting consumer education skills, concepts and understandings. The duration per unit averages four to six weeks each. However, after the field testing, a more concrete recommendation for the length of each unit can be made.

One of the decisive factors for maximizing success for SCAT materials is intensive In-Service for the teachers to be involved in the implementation process.

The portable contents of Project SCAT courseware are as follows:

1. One box-type container (dimensions unknown at this point) with appealing colors and appropriate art work

2. One In-Service Training Manual

3. One Project Director's Guide

4. Approximately 22 separate color-coded packages of materials which have evolved from the ten basic consumer education topics

   A. Each package is self-contained with a teacher's section and a student's section. It may be used for teacher directed activities or for individualized instruction.

   B. Each package is color coded to the topic area (i.e., Money Management contains six sections: Budgeting, Banking, Credit, Insurance, Investments, Taxes). All covers are to be green with appropriate art work to depict the content.

The project is in the second developmental year. The school year 1977-78 will be an intensive field testing, revision and evaluation period.

Management Profile

Complete Draft	Field Testing	Being Written	Being Typed	Being Illustrated
14	14	3	1	2

Expectations are that all modules will be in complete draft form by Sept. 30, 1977. Field test results at this point indicate the materials to have a positive effect upon the learning process.

EXAMINING THE ISSUES

Ms. Elizabeth Hanford Dole*

Government has a definite role in assisting business and consumers in our society. However, a balance must exist. One result of the quest for this balance is cost-benefit analysis. The FTC has been active in assisting consumers in the marketplace. Many of the accomplishments of the Commission are reviewed.

A controversy rages over whether the government has piled too much regulation upon our society or whether there is still too little protection by our government for those unable to protect themselves. The business community and, more recently, several prominent members of the academic community have launched a frontal attack on the entire regulatory framework. They claim that America is now suffocating under a deluge of federal paperwork, that business cannot even decipher, much less obey over 60,000 pages of edicts set forth in the Code of Federal Regulations, and that government regulators are now costing the economy over $45 billion a year. The United States, they say--quoting Walter Lippmann--is badly suffering from the "sickness of an overgoverned society."

On the other hand, persuasive arguments are still made that our society continues to be riddled with inequities and injustices. Unsuspecting consumers are still being gouged by the marketplace. Pollution remains a threat to our environment and may even grow apace with a renewed emphasis upon energy. Sexual and racial discrimination, while reduced, still holds people back. To those who see society in this light, the government--whether it be the executive, the legislative, or the judicial branch--remains the best vehicle for vitally needed reform. Thus the battle is joined, and the arguments go forward both in Washington and in conferences like this one.

More and more people feel overtaxed, over-regulated, and over-burdened by Washington. Yet all of us who have worked in the consumer field know full well that our government does have a legitimate, important role to play--and that it can and must continue to be a constructive force in our society. What we must seek, is a balance--a "creative balance," as Eliot Richardson has called it, that nurtures self-reliance and personal freedom and shields our citizens when they are weak and cares for them when they are sick.

Before Robert McNamara and the "whiz kids" went to the Defense Department, few people had ever heard of "cost-benefit analysis." There can

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be no doubt now that it has become an important and desirable tool in the government. Employing the talents of economists, statisticians, and others, cost-benefit analysis enables government policy-makers to determine how great the benefits of their intended actions may be and whether those benefits will be outweighed by the economic and social costs imposed upon the society as a whole. As a rule of thumb, if the costs outweigh the benefits, the policy maker has a clear signal to go back to the drawing boards. If the analysis is properly done, it can thus be a vital check against government actions which intrude too far or cost too much for the society to bear.

Today, cost-benefit analysis is being applied more rigorously in government than ever before. In the environmental field, for instance, the government is asking itself whether the requirements now on the books for air and water standards are going to be worth the price. The Chairman of the President's Council of Economic Advisers, Charles Schultze, recently co-authored a study for the Brookings Institution in which he estimated that current environmental laws might cost society as much as $500 billion in the next ten years. Weighing the benefits against the costs, Schultze suggested that we might be far better off to replace the current controls system with a system of pollution taxes--taxes that would presumably cost less, prompt greater technological innovation, and still achieve the desired levels of environmental purity. Similar kinds of analysis have recently been undertaken on the Interstate Commerce Commission's trucking regulations, the Civil Aeronautics Board's airline regulations, and on occupational health regulations issued by the Occupational Safety and Health Administration.

At the Federal Trade Commission, cost-benefit analysis has increasingly become a standard part of our daily operating procedures. For instance, before the Commission undertakes any major new initiative, we look to the staff to provide us with a summary of the estimated costs to society and the likely gains. The commission now has evaluation committees that review staff requests for new Commission initiatives and economists participate in the deliberations of these committees. When an investigation is started that is likely to produce a recommendation by the staff for a trade regulation rule, an economist is assigned to provide a thorough analysis of the economic issues to help assess the cost effectiveness of the proposed rule. The FTC Act now requires that before a rule is promulgated defining unfair or deceptive acts or practices, a Statement of Basis and Purpose "a statement as to the economic effect of the rule, taking into account the effect on small business and consumers" must be included. Thus, cost-benefit analysis is a central means of ensuring that the FTC responsibly exercise the authority granted to it by the Congress. The use of such analysis to measure the significance of Commission matters from the standpoint of how much money is saved for consumers is obviously a very necessary and useful dimension of effective planning. It goes without saying that saving money for consumers is a worthwhile objective, and the development of more precise cost-benefit techniques to measure this saving is tremendously important.

There are many limitations to this cost-benefit technique. The truth is that cost-benefit analysis tends to emphasize one facet of consumer

welfare--the consumer's economic welfare, as measured by the overall size of the market basket of goods and services he buys and the price he pays for it. While extremely important, this is not, nor should it ever be, the only dimension of consumer protection with which the Commission is concerned. Preoccupation with dollar cost-benefit analysis, with its aura of quantitative precision and economic specificity can lead to the neglect of other goals and objectives that are, at times, as critical to the FTC's mission as dollar-economic benefit. Cost-benefit analysis can guide resource allocation decisions, but it must never become a substitute for human judgment or compassion.

There are several areas of Commission activity which are vital to the consumer but which are not readily susceptible to precise benefit measurement:

> --For instance, the Commission must commit a substantial portion of its expertise and imagination to encourage health and safety improvements. All of us know that the use or misuse of a wide variety of consumer products can lead to serious personal injury or can be hazardous to human health. Yet many regulations in the field of health and safety cannot easily be measured by the economic yardsticks.
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> --Then, too, the Commission must take corrective action against obvious, blatant violations of its statutes, rules, and orders. Public confidence in the business community and in government is undermined when flagrant abuses continue unchecked or consumer complaints are allowed to go unanswered. Many of the violations may involve small ticket items, but the costs to society may add up to a significant amount in both a quantitative and qualitative sense.
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> --Still other activities of the Commission which do not always lend themselves to quantification are efforts designed to provide consumers accurate product and service information which will enable them to make better, more informed choices in the marketplace. By requiring the substantiation of advertising and truth-in-lending disclosures, for example, the Commission devotes substantial resources to protecting the consumer, knowing full well that the benefits cannot easily be measured. Consumers need this type of protection, and it provides business with a positive incentive to be more honest, open and respectful of consumer sovereignty.

But here is a vitally important area where cost-benefit analysis may provide a misleading yardstick. It is central to the issue of government's proper role in modern American society. It is the matter of protecting special groups of consumers who need--as well as deserve--a stronger helping hand from the government. These are such groups as children, the elderly, the poor and the disadvantaged. Many of these consumers lack buying sophistication, or their access to the marketplace is restricted, or their ability to comparison shop is limited. Frequently, they find it hard to

make informed choices in a free market. In short, they suffer more harshly than anyone else from deceptive advertising and marketing techniques, shoddy goods, or discriminatory credit practices.

Cost-benefit analysis cannot give all the right answers to the problems of protecting these special consumers. Macroeconomic analysis, for example, may indicate the gains and losses to the entire society resulting from particular government regulation, but it will not give an accurate reading of a regulation's impact upon pockets of society that are buried away in the overall statistics. The elderly, the poor, and others who are especially vulnerable may reap a far higher benefit from a government directive than the middle-class consumer who may be able to take care of himself. Then again, the argument can be made that because of the special handicaps of individuals in these groups, the government ought to lean over backward to protect them while being fair to all affected interests. A democratic government that is generous of heart and spirit must be willing to make that kind of commitment to the most disadvantaged members of its society.

Many recent Commission activities have attempted to protect consumers who are particularly vulnerable. The Commission can fulfill its responsibility to consumers in essentially two ways. Traditionally, our mandate has been carried out by the issuance of complaints against companies. Complaints are lodged after an investigation has disclosed a possible violation of the law, and they can result in dismissal or either a consent or a litigated order. More recently, under the Magnuson-Moss Act, Congress has confirmed our authority to issue substantive trade regulation rules which have the force and effect of law and which define specific unfair or deceptive acts or practices. This legislation empowers the Commission to seek in court the return of money for consumers who have been defrauded or otherwise injured by violation of a Commission rule. The Commission can also go to court to get civil penalties of up to $10,000 per day against companies for each violation of a Commission rule. The trade regulation rule is a powerful enforcement weapon, and the FTC is placing heavy emphasis on rulemaking in the consumer protection area.

For example, the proposed rule permitting price advertising of prescription eyeglasses may stimulate competition in eyeglass sales to the benefit of those who have impaired vision, and especially the elderly consumer who must survive on a fixed income.

A rule is being considered which could have a particular impact on the hearing handicapped, including the elderly. This proposed rule would require a disclosure in every advertisement making a performance claim for a hearing aid that many people with a hearing loss will not receive any significant benefit from a hearing aid. The proposed rule would also give the consumer a 30-day trial period within which to cancel his purchase and get back most of his money if he is unable to use the hearing aid effectively.

In addition to rulemaking activities, there are two other actions which the FTC has recently taken which are particularly important to the

elderly. Some of the stories that have crept out of some nursing homes and into the newspapers have appalled many Americans. The Commission's investigation is not directed toward the general quality of nursing home services--others are looking into that--but toward nursing home practices which may be deceptive or unfair, such as false or misleading representations in the sale of nursing home health care services or contractual disclaimers relieving homes of responsibility for their patient's health, safety, or property. The Commission will also be making inquiries to determine, among other things, whether nursing homes receive kickbacks from their pharmaceuticals or other suppliers or mishandle their patients' money and valuables. Many of these latter types of practices are unacceptable in any context and they are intolerable when they are directed at the elderly.

Equally important to many elderly consumers is the investigation of the impact of state regulations prohibiting dental laboratories from selling finished dentures directly to consumers. Some states require that they be purchased only through dentists, and the question is whether this type of restriction is necessary to the health and safety of the public, and how much the restriction costs the public.

Let us turn now to some of the Commission's actions in areas where low-income and handicapped consumers have been targets of abuse and where, once again, cost-benefit analysis cannot be the touchstone of our decision to take action.

Some of the consumer problems of handicapped individuals stem from the fact that many are confined to their residences due to transportation and physical mobility difficulties. Comparison shopping between competing goods and services is difficult for them, particularly when price and quality information is not readily available through the media or by phone. Those confined to their homes furnish a captive audience for door-to-door salesmen. The record compiled in the FTC proceedings to formulate the Door-to-Door Rule contained evidence of widespread consumer abuses. The numerous complaints of consumers regarding door-to-door salesmen involved the use of deception in getting a foot in the door; high pressure sales tactics; misrepresentation as to the quality, price, or other characteristics of the product; high prices for low-quality merchandise; and the nuisance created by the uninvited visit. Based upon the record of proceedings, the Commission promulgated a rule which permits the buyer in a door-to-door sale to cancel the transaction within three business days without any penalty or obligation. A provision of the rule which is particularly helpful to individuals confined to their residences is that if purchasers cancel, they need not physically return the goods to the seller; instead, they simply make any goods delivered to them available to the seller at their residence.

Another trade regulation rule which is particularly beneficial to individuals confined to their residence deals with the delivery of mail-order merchandise within the stated time, or if no time is stated, within 30 days after the seller receives the order. The seller must notify the buyer of any delay and give the buyer an option to cancel. The

record of the proceedings contained over 10,000 pages of complaints, the overwhelming majority of which dealt with delays in delivery or outright failure to deliver merchandise. Almost half expressed extreme frustration due to the failure of mail-order sellers to responsively answer inquiries concerning orders. Mail-order buyers, especially those confined to their residences, are far less able to resolve complaints than those who purchase from local merchants; rather than being able to take their grievance directly to the store representative or manager and explain the difficulty personally, mail-order buyers must deal with a seller who is often hundreds or thousands of miles away.

In addition to these Commission initiatives, the proposed prescription eyeglass rule, the hearing aid rule, and the proposed rules dealing with over-the-counter drugs and vocational schools could have a substantial effect upon the handicapped.

The single most significant action the Commission has taken in recent years on behalf of all consumers, and especially low-income consumers and inner-city residents, was its decision to promulgate the "Holder in in Due Course" rule, which became effective last May. Before the rule became final, all consumers were the potential victims of a holder-in-due course, but the old common law doctrine placed a heavier burden on the poor and the disadvantaged. This rule was designed to put equity back into our credit markets by removing the shield behind which many merchants hid beyond the reach of their dissatisfied customers. Naturally some creditors vigorously oppose this rule; they think it imposes too heavy a burden upon them and contravenes traditional concepts in the law. Nonetheless, holder-in-due-course is a relic of a bygone era when a buyer could personally evaluate the integrity and trustworthiness of the seller. Today's marketplace is impersonal, the products are standardized, and buyers frequently have no basis upon which to judge sellers. Centuries of abuse are the legacy of this old English doctrine.

The Commission, in recent years, has invested considerable resources addressing the problem of TV advertising which is being beamed at children. What we know about this type of advertising tends to indicate that young children fail to understand the nature of television commercials and that they tend to trust and believe television advertising indiscriminately. In a word, children have difficulty in distinguishing commercials from programs and tend to want whatever products are advertised on television. Thus the Commission has concluded that television advertising directed at children requires a stricter standard of fairness and accuracy than advertising directed at adults. Among the "children's" cases that have come before the Commission in recent years, several have prompted Commission bans on ads that commercially exploit children, misrepresent a product's capabilities through deceptive film-techniques, contain product endorsements by personalities who have no special competence in the field, or fail to disclose the need for a separate purchase of a toy's component parts. The Commission has also attacked advertising that could induce children to engage in activities that could be dangerous, as in the ad showing a four-year-old child cooking food on the family oven with his parents proudly proclaiming

what a fine rice the child had prepared. In another case, completed early this year, a consent order was taken forbidding a pharmaceutical company from using "Spider Man," a popular TV figure for children to advertise children's vitamins. Children are not sophisticated enough to evaluate their need for vitamins and could even endanger themselves by faithfully carrying out the blandishments of "Spider Man."

Thus the vulnerability of this special group warrants close monitoring of children's advertising. The Commission is directing particular attention to toy and food advertising, which accounts for the vast bulk of all advertising directed to children. In terms of law enforcement tools, the Commission will continue to emphasize a case-by-case approach. The case approach is especially well-suited as a means of developing information about the effects of advertising claims and techniques and in establishing data which enhances our efforts to delineate better enforcement priorities.

The final area is protection of minorities, such as Spanish-speaking consumers who now comprise a sizable and rapidly growing segment of our population. The door-to-door sales rule noted earlier exemplifies our activities which benefit the Spanish-speaking communities. The rule requires that an official sales contract and notice of the right to cancel must be written in the same language that is used in oral presentations about the product. In other words, if a seller persuades the consumer to buy his product with a Spanish sales pitch, he cannot then turn around and slap the buyer with a contract written in English and perhaps foreign to the customer. You can imagine the abuses that can arise from such an environment.

We have indeed traveled far from the day of "caveat emptor" and the "laissez faire" of Adam Smith. The government now regulates many areas of the marketplace where once it feared to tread, and as those regulations accumulate in one area after another, there is a significant danger that we could overburden our society and our economy so that things slowly grind to a halt. To protect ourselves from that end, it is essential that the government always act prudently, cautiously, and with due regard for the consequences of its acts--and for that purpose, tools such as cost-benefit analysis can be invaluable.

Yet, in our desire to make government more scientific and precise, let us not overlook how important it is to have a government that is compassionate toward its weakest citizens. Especially vulnerable groups deserve a measure of generosity that cannot be placed under a microscope or quantified on a chart. America would not be the country we grew up to respect and to love unless it were governed by its heart as well as its head. Abraham Lincoln once said: "To correct the evils, great and small, which spring from want of sympathy and from positive enmity among strangers, is one of the highest functions of civilization."

AN ADVOCATES VIEW

Mr. Martin Lobel*

The essential question is who is going to make our nation's energy policy: our elected representatives or OPEC and their agents, the international oil companies. We must raise prices to encourage conservation of energy. If we deregulate oil and gas prices, we hand control of our economy to OPEC and the international oil companies. Carter is correct in raising prices through our tax system and recycling the money to the consumers rather than granting windfalls to the international oil companies and OPEC.

President Carter, in his Energy Speech on Wednesday, April 20, 1977 noted that the American people have some very difficult decisions to make regarding the energy situation. He is absolutely correct--we do have important decisions and options to pursue. The issue before us, essentially, is whether our energy policy is going to be made and our energy prices are going to be made, by our elected representatives or by the OPEC Cartel and the international oil companies. I think President Carter is absolutely correct in noting that we must, through our elected representatives and the President, set a national energy policy. His proposal, overall, is not bad. It needs a lot of work; but considering the time frame, it is not bad.

Let us take a look at pricing for a moment for: (1) crude oil, (2) natural gas, (3) coal and (4) alternative fuels. We use tremendous amounts of oil and natural gas in this country, and we waste incredible quantities of it. We have to encourage conservation. You can encourage it either through a large, elaborate bureaucracy or through a pricing scheme. President Carter, I think appropriately chose the pricing scheme so that each individual can make his or her choices of what is important. If we do not set the price of domestic oil, what is going to happen is that OPEC and essentially the Arab members of OPEC will set the price for U.S. oil. In effect, we will grant to a few sheiks, kings, princes, or whatever, the power to determine the amount of capital that will be drawn out of the American economy.

The oil companies have cooperated with the OPEC Cartel because it is to their advantage to do so. The companies are sometimes corrupt, but not often, at least with this Administration. What we see now is the oil companies supporting policing the cartel. Why would they want to do that? Very simply, because the higher the price for OPEC oil, the higher the profits they get from their non-OPEC oil. Oil was very profitable to produce at $2.50 a barrel, it is now extraordinarily profitable to produce at $11.28 a barrel. As a matter of fact, a little analysis of

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CitiBank Newsletter's April issue with a report of profits for various industries will indicate that in 1976 the oil companies, the eight defendants in the FTC Antitrust case, earned over 20 per cent of the total profits earned by the largest 1,890 manufacturing companies in the United States. That gives you some idea of their financial capabilities. They are answerable to no one for all practical purposes, except theoretically to the stockholders; but we all know that large international corporations tend to have self-perpetuating boards of directors, except when you have a significant stockholder like the Mellon interest in Gulf. The companies like Conoco are the mini-majors who are going to get hurt, because as the majors grab larger and larger shares of the market, the consumer and what little independent competition exists in the oil industry, will go the way of the Dodo bird.

The question is, should we deregulate the price of oil and natural gas? Let us take a look at what that would mean. If we deregulate the price of oil, that means the price of domestic oil will rise to whatever level OPEC sets for it. If we deregulate the price of natural gas, that means the consumers in the producing states are going to be paying $4 and $5 per 1000 cubic feet, up to 2 1/2 to 3 times what they are paying now. Why should that be true? Most of the so-called "Yankees" are buying natural gas over long-term contracts at fixed prices. Most of the gas sold in the producing states is uncontrolled except in all, or almost all, cases by contracts with either six months or one year review provisions. That means that the purchaser will pay the going price. Now if these Yankees come down and want natural gas, they are going to be able to pay four, five, or even six dollars per 1000 cubic feet for natural gas because they are going to roll it into the 50¢ gas they already have. The consumers in the producing states (Texas, Oklahoma, Louisiana) do not have that option of rolling it into cheap gas and they are going to be paying four, five, maybe six dollars per 1000 cubic feet of natural gas--obviously not a satisfactory solution. New Mexico recognizes the problem and has already put a cap on the price of natural gas sold in its state.

Let us take a look at what the President has proposed to do. He has indicated that we are going to keep price controls on domestic crude. Further, we are going to let the price to the consumer rise to the price adjusted for inflation that he is paying overall in 1977. The difference is going to be made up by a tax which is going to be rebated to the consumer, so that even though theoretically, at least if it was an ideal world, everybody would pay out as much as they got back. It would be more expensive to run a 4,000 - 5,000 pound automobile; it would be more expensive to heat your home; it would be economic to insulate your home; and you could use that money for something else. Now the final details of the President's program are not yet set. It is likely, although not certain, that large chunks of that income generated from a tax on oil and natural gas will be rebated to the payroll taxes and to Social Security which are two of the most regressive taxes we impose upon the American public.

There are several deficiencies in the President's program, however. First of all, Alaskan crude, and remember we are talking about one-third of our nation's total reserves, which are owned by Exxon, British Petroleum, and Atlantic Richfield, will be priced at almost $15 a barrel. That is much too high. Second, there is no justification for $1.75 price for natural gas. The Federal Power Commission staff, which is not noted to be unfriendly to the natural gas industry, estimated with an 18 per cent rate of return that the nationwide price of gas should be, at most, 62¢ per 1000 cubic feet. So what the President ought to do is cut back that $1.75 price for natural gas to producers. They will scream they cannot get enough capital, that they are not earning enough. Well, Mobil Oil did not earn enough to invest in new drilling and exploration, but they sure earned enough to buy Montgomery Ward (that is with less than one year's profits) and they have earned enough to put in a bid for one-fourth of Orange County, California.

There is a finite problem about the amount of money you can reinvest. Large amounts of capital, so-called capital requirements of the oil industry, are transfer payments to the Federal Government in the bonus bidding system. These oil companies are required to put out literally hundreds of millions of dollars just for the right to drill on the outer continental shelf. That is wrong. What we ought to do is go to a net profits leasing system as California does, which in effect allows the companies to bid freely without this large barrier to competition. It would return more money to the federal government in the long term; it would not help balance the budget as quickly as the present bidding system does; but it would maintain a much greater control over what goes on.

The President has recognized at long last that we do not have adequate data about the oil and gas industry. He has insisted that we go out and collect that data, under penalty of perjury. I think that is long overdue. All our statistics now, for all practical purposes, come from the American Petroleum Institute and the American Gas Association. They are unaudited, self-serving industry data. We cannot allow this country to run on data from the industry that is supposed to be being regulated. The President has promised to collect that data, and knowing the people he has working for him, I think he will do a very good job of it. Now the oil companies will tell you, "Well, we'll tell the government anything they want!" Yet they go into court when the Federal Trade Commission asks for line-of-business reporting and try to prevent them from getting the data, and the history of data collection from the United States Government has been a disgrace. Ever since 1966, as far as I am aware, we have gone out and said "We're going to collect data," and the industry says, "We'll help you," and nothing has ever been done. Maybe it is bureaucratic inertia, I do not know.

The President has said that we must encourage the conversion of our electric utilities to coal and encourage conservation of electricity. That, also, is long overdue. If we were to prohibit today the consumption of natural gas to generate electricity, we would free 1/7th of the

nation's total supply of natural gas. What we have to do is discourage the consumption of natural gas for electricity and for other non-priority uses. The President's program is not nearly strict enough. It has to be strengthened. It is true that it will take a long time to convert many of these electric generating plants to coal. There are tax incentives in the President's program to do that. However, it is much too long a time frame. It is not nearly stringent enough in terms of forcing the lowest priority consumers of natural gas to switch over to alternative fuel. Rather than paying an equivalent price for natural gas, equivalent to distilates or #4 or #2 heating oil, we ought to be forcing these companies to pay much more for natural gas and we ought to have a flat prohibition against certain uses of natural gas. If we do that, then there will be plenty of natural gas available for required needs--heating homes, baking products, and making fertilizer. If we do that, we free up large quantities of natural gas. What we have done in the past is oversold it. The more natural gas you burn, the lower the price you pay. We cannot afford that. The President has delegated this responsibility to state public utilities commissions who in the past have done nothing except wring their hands.

There has been much ado about this idea of a gasoline tax. I think it a nice symbolic gesture--I do not really think it will have that great an impact on consumption. There is no excuse for paying such a low price for gasoline in the market today. Nor is there any excuse for not moving vigorously to encourage industry competition rather than locking in the status quo as the President's program does. He noted that divestiture is not needed now, but it will be studied and,if it is needed,then the Anti-trust Division will be asked to intervene. I did a quick study a couple of years ago and discovered that Exxon has more attorneys on retainer than are employed by the entire Justice Department. When you talk about big oil versus big government, you are talking about really two junior level government attorneys, maybe a senior level attorney, against some of the top corporate attorneys in the country. The large corporations can inundate you with very high-priced attorneys. Who cares about the cost of attorneys when you are earning 2.8, 2.9 billion dollars per year? I mean that comes out of petty cash!

We represent Consumers Union before the Federal Energy Administration--it appeared that Conoco, Exxon and a couple of other companies got caught with their fingers in the cookie jar and they overcharged, according to the FEA, the American public about 1.3 billion dollars. Either my partner or myself sit in the hearing room with six to sixteen lawyers from the other side, arguing whether they should be forced to pay the money back or receive a retroactive exemption from the rulings. And this is a small proceedings. It has not even gotten to court. So the relative imbalance of any given issue is really great. Divestiture has been studied to extremes and I think everybody who has studied it impartially has concluded it is needed. It is needed now.

So far as the individual consumer is concerned, the President's program now is not yet definite enough to really say, "This is what's going to

happen, this is what's going to happen." All you can say is that you are going to pay a lot more for energy and the public has got to know that if they do not pay this price--if they do not encourage conservation now, we are going to be paying a lot more for a lot less later. The basic question that we must ask ourselves is, "Who do we want to make national energy policies, OPEC and their agents, the international oil companies, or our elected representatives?"

Everybody agrees that conservation is required. How we conserve and who we pay the price to, will depend essentially upon the support the President gets for his program and how Congress reacts. Russell Long has said in effect, "What's good for oil is good for Louisiana, and I'm for what's good for Louisiana." And he is Chairman of the Senate Finance Committee. However, he ought to be concerned about the consumers of Louisiana who make their voices heard. I do not think the 200-odd lobbyists of the oil industry in Washington or the thousands of lawyers they have on retainer will be able to sway the politicians. Politicians all want to get reelected. That is the first and foremost thing, and no matter how much they get in campaign contributions from the oil industry, or from their friends in the oil industry, they are not going to get reelected if the public is outraged at what they do.

It is up to the so-called consumer leaders to educate their constituency. Consumers are going to have to pay more--there is no question about it. The only question is whether it is going to be rebated to the public through the tax system or going to be put into the pockets of OPEC or the oil companies. The decision is up to you. The essential nitty gritty "who does what to whom" is important, but it is far more important that we understand the overall outline of the program and work through Congress to "improve it." You know, the President was absolutely right when he said everybody was going to scream and it all depends on whose ox is being bored who screams the loudest. Consumers are going to have to scream, and scream loudly if they are going to preserve their piece of the pie. The White House now is very sympathetic to the consumer viewpoint, far more sympathetic than any of the three previous administrations. We can work with them if we present reasonable alternatives.

AN INDUSTRY RESPONSE

Mr. Howard Hardesty*

The principles and goals President Carter set forth in his energy message have many favorable aspects. Perhaps most important of all, the President has emphasized that our energy problems are severe and require immediate attention. We must deal with the nation's excessive reliance on foreign oil. But in finding appropriate solutions, we must also balance in an equitable manner the interests of consumers, producers, and environmentalists. It is vital that we deal with these pending decisions through factual discussions and not emotional name calling. Such rhetoric by our critics benefits no one and serves no constructive purpose.

There are three items that come from the President's energy message that have to make all of us feel a little better about the future of this nation. It would be very difficult to find fault with his statement of the ten principles around which he wants to build the program. Certainly government should provide the policy that puts all the effective tools of this country behind a particular program to better serve all of us. Certainly we want economic growth. We need to protect the environment. Conservation is an absolute essential. All of the sacrifices must be fair, must be shared by everyone in accordance with their ability to share. We need to shift toward goals and we certainly need to be thinking about the new resources that will come to our rescue; ones we do not even know about yet can provide the energy for the 21st century. We cannot quibble with his goals--2 per cent increase in energy demand or less, as compared with a 5 and 6 per cent that we have experienced in the past decade, gasoline consumption down 10 per cent, 50 per cent less imports, a strategic reserve, two-thirds more coal production by 1985, insulation of 90 per cent of the homes and a turn as quickly as we can to solar energy. These are good, and I think in addition to spelling out these principles and setting these goals, he has also done something else. Through the leadership that he has provided and through the strength of his office, there should be very few people in this country that question that our energy problems are severe, they need our immediate attention, and we must move forward toward their resolution. When you begin to get down to specifics, then you get into the real heart of the matter. This is going to be the most difficult challenge, because as you serve the environment, as you serve the consumer, as you try to assist the producer, you obviously are having pressures coming one against the other. I think if there is a concern in what some of the detail I have seen so far it is that we are really looking too long term and are less concerned about the next four or five years.

When we are talking about a new coal station of 1000 megawatts or 2000 megawatts, we are talking about eight years of construction time. We

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are talking about the installation of a technology of scrubbing devices not yet perfected. So we are looking in that phase of the program at something that is at least six to eight years. When we turn to synthetics, we are talking about long lead times, too.

We have a problem right now of bridging the gap and we have got a sickness that needs attending right now, and that is our heavy reliance on foreign oil, in excess of eight million barrels a day in the last month. An adverse dream, balance of payments of over $35 billion a year, and there is nothing that I have seen yet in this program (Carter's Energy Program) that begins to change this very quickly. This may be where his leadership has to call upon us to voluntarily say, "Yes, the problem is real, and yes, there are ways that we can so conduct ourselves to make a contribution as we gear up to a different future and a future which helps us burn all of our sources of energy in a more efficient and effective way."

The energy problem is serious and deep, and it deserves more than emotionalism. It deserves a consideration of the facts and how best they lead us to the interests of this country. For instance, I have heard little earlier about the sheiks and the kings who control our destiny in cooperation with the international oil companies. I have heard that Conoco has its finger in the cookie jar. I have heard that the oil companies were not answerable to anyone. Let us get a little more specific instead of trying to emotionally turn somebody against an industry or against a company.

Canada has posed us our greatest problem. We not only have a three month embargo, we have got a <u>total</u> embargo on oil coming down from Canada. That does not help us with three border-line refineries that have depended upon Canadian oil in the past. We are going through all sorts of problems and we have not seen <u>them</u> lower prices. They were the first people who really began to lay it on heavy with oil crossing the border.

Venezuala was the one that started the first real true increases in price. In 1969 when oil was at $2.75 our margins in our two principal countries were roughly 20-25¢ per barrel. They were returning us our capital in fourteen years, and that is no great bonanza! Now that the price has risen to $11.73-$13.75, our margins still stand at the 20 per cent range. This take has <u>not</u> gone to us! It has gone to the producing countries and this is true across the board whether you take Norway, the United Kingdom, or the United States. So keep these facts in perspective. This has not been some sort of a windfall to us. Sure, when they doubled these prices it looked like it was, but we had to stay in business, so if we made $11.75 per barrel, we had to go out the next day and put it back in our terminal so as to keep the refinery going, and we spent every bit of that.

Now, "Conoco got its finger in the cookie jar." Does that really help a national debate on important policies? If you think that abiding by rules and regulations issued sometimes sixty and ninety days after you

make a decision is an easy thing to do, it is not. We went to the FEA with the problem, they did not come to us, and we said "Here, we interpreted, based upon conversations with you, one way; you have written your regulations and we see from your forms we were wrong, how do we work this out?" I think that has the interest of our shareholders, yes, our employees, yes, and our consumers. But no one flushed us out on that.

Now we are answerable to someone. We are answerable to a lot of people. We are answerable to our employees to provide them with safe and adequate jobs that have continuity and at levels that are representative of what they need to live and to perform their functions. We are responsible to consumers, the utility companies, the people who come into our service stations, who buy our products. So there are a lot of areas where we come in touch with a day-to-day basis with people.

We are moving forward today under the leadership of President Carter to come to grips with a policy which, he says, if not resolved in the near future, can lead to a catastrophe. No energy policy will move through Congress, will be finally accepted by the people, unless the incident and the burden of increased energy costs are borne fairly by all. Sure it sould be nice in some areas to have prices move up to provide cash flows that are necessary to help bridge the gap. But if the public were to perceive the efforts at this time for a new policy as they flow in only to the oil companies, there would be no policy. If the producers were to perceive that they have no incentive for the future and that everything was surrounding the protection of the consumer, we would have no policy. If the environmentalist notes that the world of the future is one that is unspoiled by man, as much as all of us would like it that way, without being willing to engage in an honest interchange of how we can get the job done and serve both goals, there will not be an energy policy. Whatever we bring to the format of American public opinion as we go about our jobs, all of us from our different backgrounds and interests should recognize that the problem is great, it is serious and we should attempt to blend together those abilities that we possess that will really serve America in the long term.

CONSUMER RIGHTS OF THE DISABLED

Dr. Lilly Bruck*

Disabled Americans, 36 million of them, are the largest minority in the United States. They are now emerging as the "next minority," fighting for equality as citizens. In this context, the word "consumers" connotates militant, activist consumers of services provided by agencies who, traditionally, did not include disabled citizens in decisions affecting their lives. People with disabilities are handicapped by environmental and attitudinal barriers in society. The law now makes it mandatory that there be no discrimination against disabled individuals solely because of their handicap, in any project involving Federal funds.

There has recently been an explosion of news about a group of people about whom society has kept remarkably quiet for decades and centuries. This group of Americans, 36 million of them, are the largest minority in the country--the handicapped. Medical and technological advances not only keep those alive who previously would not have survived serious accidents or illnesses; electric wheelchairs, computers that translate print into sound, skills in rehabilitation make it possible for citizens with disabilities to join the mainstream.

This minority is by no means a closed society. The able-bodied should never think of the disabled as "they." While we would not change the color of our skins or the places of our birth, accidents or illness can make any one of us a member of this largest minority. Diving, skiing, automobile accidents can paralyze in split seconds; illness and geriatric disabilities swell the ranks of disabled Americans day by day.

The handicapped are becoming more assertive. The following is a quote from the Newsletter of the American Coalition of Citizens with Disabilities:

> Confrontation on 504. The words are bold and starkly simple: "no otherwise qualified handicapped individual in the United States shall, solely by reason of his handicap, be excluded from participation in, be denied the benefits of, or be subject to discrimination under any program or activity receiving federal financial assistance." Section 504 of the Rehabilitation Act of 1973, as amended in 1974, offers in these brief clauses the most comprehensive civil rights protection ever extended to America's estimated 36 million disabled citizens. The words are law and have been since 1973. Without implementation, however, they are mere expressions of policy. Regulations interpreting the language of Section 504 and providing guidelines for compliance and enforcement are urgently needed for the promise to become reality

*Director, Consumer Education, Department of Consumer Affairs, The City of New York

for the hundreds of thousands of disabled people annually seeking assistance in federally funded programs and activities.**

Section 501 of the Act refers to Civil Service employment, Section 502 concerns compliance with architectural barriers, and 503 establishes rules for affirmative action for employers working with government contracts.

The word "consumer" as we use it, is defined more narrowly by the disabled community. "Consumer organizations," such as the quoted Coalition of Citizens with Disabilities, represent consumers of services provided by M.S., U.C.P., Lighthouse and others. In this context, the word consumer stands for self-help, independence and a good measure of militancy. But then, is not our brand of consumerism also a militant approach to consumer protection, and is not consumer education instruction for self-defense in the market maze?

Disability and handicapped must be defined. "Disability" is a physical limitation, an impairment in vision, hearing, mobility; an organic, nervous or mental disorder. The "handicap" is created by environmental or attitudinal barriers which exclude people with disabilities from full participation in society. Many of the attitudinal barriers are due more to ignorance than thoughtlessness. The current emphasis in media coverage may contribute to improving the situation and the White House Conference on Handicapped Individuals, in Washington, will put a spotlight on the problems of the handicapped.

In 1973, a booklet, Consumer Advice for the Handicapped, was published by the New York City Department of Consumer Affairs. It addressed itself to the purchase and rental of goods and services for special needs--wheelchairs, canes, hearing aids--and gave some other pertinent advice about available resources. For the consumer needs for their non-disabled selves, we inserted a companion piece, our regular Do's and Don'ts for Consumers. The publication was a success. It was still distributed free--then New York City could afford the luxury--and orders came in from all over the country. Had not anybody thought of the handicapped as consumers?

The current version is different. The title has been changed from "Advice" (how condescending) for the "Handicapped" (Who handicaps them? We have met the enemy and he is us.) to Consumer Rights for Disabled Citizens.

**One week after this paper was delivered, on April 28, 1977, Secretary of HEW, Joseph Califano signed regulations implementing Section 504 of the Rehabilitation Act into law, responding to nation wide demonstrations and sit-ins by people with disabilities. "The time for discrimination against the handicapped is over in the United States," declared President Jimmy Carter in his opening address to the First White House Conference on Handicapped Individuals, on May 23, 1977.

The major problems of the handicapped are income, education, employment, housing and transportation. These are areas where government must and does assist. Examples are Disability benefits, SSI, Veterans benefits, Vocational Rehabilitation, Education of all Handicapped Children, Affirmative Action, and Tax benefits for reconstruction of premises. However, in business, there is no government subsidy to enforce compliance with regulations. Only the pressure of public opinion and the demands of disabled consumers will achieve results.

In the introduction, the book claims that we need a

DISABLED CONSUMERS BILL OF RIGHTS

the right to Access for the mobility impaired;
the right to Information for the visually impaired;
the right to Communication for the hearing impaired;
the right to Consideration for the mentally impaired.

How can a person shop if he cannot even get into the store? Why should a blind shopper be deprived of savings from store coupons? A deaf consumer does not even get the benefit of radio and TV commercials. Much as we may sneer at them they do inform the hearer about sales, bargains and new products. When it comes to credit, do you think that a person with communication problems gets fair consideration?

In preparation for the book for the handicapped; we sent questionnaires to airlines, banks, food markets and department stores in New York City. We asked concrete questions about width of entrances, aisles, rest rooms, information, communication, staff training, special accommodations and services. The responses were sparse. Even among those who responded, not too many services were listed. No special staff training was reported. Only the airlines are advanced in service to handicapped passengers and in special staff training to be sensitive to the needs of disabled travelers and to accommodate them. This attitude of the airlines may be due to competition, or maybe even more due to public pressure. Not so long ago, disabled airline passengers were subjected to humiliating conditions, having to provide doctor's certificates even when traveling as delegates to professional conventions, having to travel with an aid, or even being refused passage altogether. Several lawsuits by handicapped activists and regulations by the F.A.A.--and federal money in airport reconstructions--brought about improvements.

The poorest responders were the banks. In the entire country, I believe only Chemical Bank provides statements in Braille. This shows a lack of demand, or lack of knowledge among disabled clients that they could and should demand!

The response to the publication is unbelievable. It is no longer free, yet orders come in from every state of the Union and beyond. The "Talking Book," produced by the Library of Congress, Division for the Blind and Physically Disabled, is currently being distributed.

It is our duty, as consumerists, to advocate disabled consumers' rights in the market place. Our task is twofold: we have to make demands from

business and offer assertiveness training to disabled consumers. We should start in the schools. As educators, you are familiar with the "Education for all Handicapped Children" Act--and its problems of implementation. How do handicapped children see themselves in their roles as consumers? Do special education teachers include consumer education? Are physically handicapped children even slightly familiar with the concepts of budgeting, evaluating advertising, shopping, or are they too infantilized by their surroundings to ever have spent one dollar on their own?

ABSTRACT*

ECONOMICS OF MEDICAL EXPENSE INSURANCE

Dr. Sylvia Lane**

Individual purchasers of health insurance are disadvantaged when compared with members of group plans. The individual consumer lacks information concerning many aspects of his medical insurance needs. He is confronted with numerous types of policies, yet impartial price information for these policies is not readily available.

Often individual consumers lack, or think they lack, the competence to understand policy provisions. Usually, they do not know their risk class. Such imperfect information results in higher prices because of their reduced bargaining power with insurers. The higher rates paid by individuals may be subsidizing group members who have a marked advantage when purchasing medical expense insurance since they are represented by knowledgeable bargaining agents. Group representatives may negotiate contract prices close to marginal cost, leaving fixed costs to be borne by less astute bargainers, perhaps the individual policyholders.

State regulatory commissions only protect consumers against fraud and insurer bankruptcy, not against imperfect information or inequitable pricing. State regulatory agencies make no attempt to control costs or prices. Research is necessary to determine the direction and amount of subsidies group members may be receiving from individual policyholders if regulatory commissions are to approve equitable premiums for the health insurance market.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

**Professor, Agriculture Economics, University of California at Davis

A DELIVERY SYSTEM: CHANGE FOR YOUR DOLLAR

Dr. Heinz Biesdorf and Ms. Jo Swanson*

In response to the changing economy and its impact on consumer resource management, "Change for Your Dollar" (CFYD), a consumer education program, was initiated within New York State Cooperative Extension and the Department of Consumer Economics and Public Policy, New York State College of Human Ecology, Cornell University. Its purpose is to reach a significant number of consumers through mass media outlets. The program was developed to efficiently utilize the valuable resources available to consumer education programs and the system devised is capable of being duplicated by other consumer education programs.

Need

Within most consumer education programs, including those of Cooperative Extension, there is a need for efficient, effective and low-cost delivery methods to disseminate educational information to the program's clientele. Frequently the information or facts to be disseminated are not originally in a form which can be released to the general public and be meaningful to the audience. As a result, consumer education programs must not merely release information, but must also render the information into a form which is acceptable and useful for the general public. Careful attention needs to be devoted to selecting a delivery mode that succeeds in reaching the intended audience at minimal costs.

Purpose

In response to the changing economy and its impact on consumer resource management a focused consumer education program entitled "Change for Your Dollar" (CFYD) was initiated in February 1975 within New York State Cooperative Extension and the Department of Consumer Economics and Public Policy, New York State College of Human Ecology, Cornell University.

Capable of being duplicated by other consumer education programs at a local, regional, state or national basis, the system used in CFYD is designed to reach a significant number of consumers through mass media outlets with reliable, authoritative and meaningful educational and informational messages on effective resource management. CFYD, in addition, was developed to efficiently utilize the valuable resources available to consumer education programs, namely the expertise of consumer educators and the wealth of existing educational materials.

Major emphasis in the program is placed not on creating new or entirely different information but rather on developing an improved delivery system

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to reach more consumers more often. Articles disseminated through the system are written to be both highly acceptable and useful to consumers.

Program Organization and Description

Under the overall direction and coordination of two consumer educators, part-time free lance writers in close consultation with a subject matter expert (faculty member) develop consumer mass media articles. This system of article development is unique since subject matter faculty exercise complete control over the content and focus of the article. The faculty time is optimized since a writer develops numerous articles of varying length on the same topic, each one containing the base information provided by the subject matter expert. The two consumer educators coordinate the variety of topics covered, hire and supervise the free lance writers and monitor and promote the use of the articles.

Fifty-seven consumer education professionals (Cooperative Extension home economists in each of the New York State counties and in New York City) are responsible for the actual dissemination and use of the articles by local mass media. They receive a monthly packet of fifty to seventy separate consumer articles of varying lengths, some in camera-ready form. Topics within the following subject matter areas are covered: general family money management, food and food purchasing, clothing, home furnishings and appliances, energy conservation (as it affects family budgets), and transportation (private automobile).

The home economists are responsible for maintaining contacts with a local mass media to insure continued cooperation with the program. All consumer information disseminated through this program is done as public service meassages, thus no media fees are paid by the education organization (Cooperative Extension). Mass media outlets utilized include both radio programs and radio spots, television, newspapers, Cooperative Extension newsletters, newsletters of other organizations including credit unions, industries and community social groups, and local shopper or "pennysaver" papers.

A reactor panel of ten home economists from across the state was selected to provide quick feedback to the program's coordinators concerning proposed activities and program emphasis. The program's coordinators offer regular inservice education and individual consultation for the state's Extension home economists to monitor and improve program effectiveness.

A program logo was designed incorporating the title--"Change for Your Dollar"--and the educational organization--Cooperative Extension New York State. This visual identification is used on all articles and other communications within the program. In many communities within New York, mass media use the title and logo when carrying CFYD consumer information. The county home economists reinforce program identity by using the logo on brochures, leaflets and exhibits.

Results

As of April 1977 a total of 1,456 separate consumer articles have been sent to the home economists for use in local mass media and approximately 200 articles are in some intermediate state of preparation. Thus, efficient development of materials seems to be an accomplishment of the system.

Surveys conducted to monitor mass media use of the articles indicate excellent acceptance and use. The following compilation of statistics attests to the successful delivery of consumer information by the program (Table 1). More detailed information on program outreach is available to interested educators.

Indicative of the perceived general quality and value of information developed within this system is the fact that 28 educational organizations subscribe on a charge basis to receive the monthly mailing of articles. These organizations include state Extension groups outside of New York, credit unions, banks and savings institutions, a national weekly community newspaper, a labor union and a regional religious group.

Implications

Since there seems to be a general need for effective and efficient information systems within consumer education programs, the information system developed in the New York "Change for Your Dollar" program could be extremely valuable to other consumer education programs. It offers the potential of maximizing the input of consumer experts while keeping their total time commitment to a minimum. It provides for the development of authoritative information in a popular style with general appeal and acceptance. And lastly, the system offers an opportunity for a consumer education program to greatly expand its outreach with a minimum expenditure of resources.

Consumer educators considering a program similar to CHANGE FOR YOUR DOLLAR or interested in obtaining some of the materials developed in the program may contact:

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Consumer Economics and Public Policy
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Table 1.

Use of CHANGE FOR YOUR DOLLAR Articles
As of December 31, 1976

Printed Media	Number	Circulation
Number of Cooperative Extension county newsletters/letter series using CFYD--New York	102	
Newsletter/letter series circulation		157,466
Newspapers with regular CFYD columns or features typeset by the paper--not camera-ready--New York	144	
Newspaper circulation		5,712,821[1]
Pennysavers and other local papers carrying camera-ready articles--New York	166	
Camera-ready circulation		2,721,473[2]
Paid subscribers (42 of which 12 reported circulations)[3] 3 reports from New York and 9 reports from other states--See Appendix.		5,818,009
TOTAL CIRCULATION		14,409,769
Radio & TV--New York State only		
Number of radio stations with regularly scheduled Extension programs (not spots)	44	
Number of radio stations with regular spots-- spots are frequently aired more than once a week--some more than once a day	112	
Number of counties using TV	10	
Special Projects[4] --New York State only		
Number of special projects using CFYD	47	

[1]This figure does not include circulation figures for 11 of the 144 newspapers using regular CFYD columns. Circulation figures for these 11 newspapers were unavailable.
[2]This figure does not include circulation figures for 6 of the 166 pennysavers or other local papers that use CFYD camera-ready articles. Circulation figures for these 6 papers were unavailable.
[3]Only 12 of 42 paid subscribers have reported circulation figures including 3 reports from NYS and 9 reports from other states. This figure, of course, would be considerably larger if all subscribers had reported.
[4]Samples of special projects are tip-o-phone, exhibits, special supplements or programs, etc.

ABSTRACT*

EFFICIENCY OF CONSUMER PERFORMANCE

Dr. George Sproles, Dr. Loren Geistfeld and Dr. Suzanne Badenhop**

Consumer decision-making is a complex process affected by a variety of behavioral, economic and marketing factors. However, one central aspect which is relevant to all decisions is the types and amounts of information on alternative choices (i.e., brand/model/style combinations) which the consumer receives and processes. The consumer's effectiveness in making the final choice will ultimately depend to a great extent on these informational contents.

An experimental design was used in this investigation to assess the efficiency of consumer decision-making when different amounts of consumer information were available. Factors manipulated include types/amounts of information (three levels), consumer sophistication (two levels), and brands available (four levels). It was found that as information available was increased, efficiency of consumer decision-making increased. These findings suggest the potential significance of consumer informational programs in improving consumer performance in the market.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

**Dr. Sproles is Associate Professor, Consumer Sciences, University of Houston, Drs. Geistfeld and Badenhop are Assistant Professors, Consumer Sciences, Purdue University.

A CONSUMER VIEW

Dr. Roger Henderson*

Accident losses and societal expectations have increased to the point in our society that the traditional tort-liability insurance system is overburdened. Insurance to distribute accident losses on a broader basis can be developed by the insurance industry and this is to be preferred to government programs. However, public demand will result in government programs if private enterprise does not heed the call.

A recent government study predicts that one-fourth of the people in the United States will be involved in an accident this year which will cause them to lose one or more days from work. This high accident rate raises difficulties in fixing liability under law. In past years our liability laws were different from today's. One hundred years ago, for example, if you caused another to be injured, you had to pay for that injury. This reflected an agrarian society with a smidgen of artisanship and other crafts performed by manual labor. There were not so many accidents that an individual could not live with a rule that said he paid without regard to fault if he hurt another. With the advent of the Industrial Revolution, however, many more accidental injuries were spawned and the society in England and in this country could no longer live with such a rule. We then moved to a rule which said that if you harmed another person you only had to pay on establishment of certain conditions. The common conditions were that the other person was at fault, either in acting intentionally or carelessly, in causing your injury and you yourself had to be free from any contributing fault.

In recent years, however, there has been a big change in liability, specifically in liability for defective products. Beginning about 15 years ago courts began holding manufacturers liable for putting products on the market which proved to be defective and which caused injury to consumers. At first this new law was intertwined with the law of sales, but it quickly emerged from that cocoon and became full-blown tort law. This is what is referred to as products liability or strict products liability. Not only can consumers recover but bystanders who had nothing to do with the purchase of the product can also recover. This law also reflects changes in our society.

Within the last 20 or so years we have experienced great advances in production techniques and technology. We now have a society where mass production of goods is taken for granted. Consumers cannot unwrap and inspect every piece of merchandise that they buy, nor could they properly

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evaluate the risks it presents if they were to inspect it. Thus, the courts have said that when we all benefit from mass production techniques, this great benefit should not be borne at the expense of a few who happen to get the defective products. The courts have put the cost of these defects, in theory, back on the manufacturer who in turn attempts to spread the risk by self-insuring or purchasing insurance from one of the established casualty insurance companies. There is no doubt that this was a piece of social legislation by the courts which has now been adopted in most states and predictably will be adopted in those remaining. Its purpose is to see that people who are injured in accidents from defective products are compensated, and we do it through a system of risk distribution ready-built. The business structure is supposed to add to the cost of its products the cost of these accidents.

Is this new theory of product liability taking us where we want to go? It is no longer viewed as hard luck or inevitable that people should have to bear the cost of accidents. There are just too many ways of distributing these costs so that no one person is mashed into the mire while the rest of us go merrily on our way chasing after the good life.

First, let us look at this new law of products liability and see whether it is really that far removed from the old law of negligence. Until recently it was commonly said that two of the three basic theories of product liability were really nothing more than negligence. The first of these involved cases where a victim complained that inadequate instructions or warnings were placed upon a product and they were injured because of this deficiency. On close examination it appears that the basis for this liability is that the manufacturer did something it should not have done. That is, the manufacturer was negligent in failing to put the proper instructions or warnings on the product. The second type of case is the design defect case where a victim alleges that the product should have been designed differently. How do you prove that a product should have been designed differently? You prove that it would have been just as easy or no great burden to have designed it to eliminate the objectionable feature. This also smacks of negligence because you are weighing the utility of manufacturing it the way it was manufactured against the magnitude of the risk that was created by manufacturing it that way. If you succeed you have proven that it was wrong for the manufacturer to manufacture the product as it was doing. Particularly if you use a test of foresight, this sounds very much like negligence again. The third theory involves a break from the negligence standard. You must prove that the product was not manufactured as it was supposed to be manufactured. This probably comes closest to strict liability--liability without fault--but in the final analysis it is easy to see that a consumer who is injured by a product does not have a free or clear shot at the manufacturer under this theory either. The consumer must still prove that the manufacturer either did something wrong or that the product itself was not as it was planned to be.

Thus, are we compensating the people who are involved in these accidents as efficiently as possible? Professor O'Connell of the University of

Illinois Law School says no. He argues that most of the insurance dollar which the businessman pays is going to administer the system. He argues that manufacturers defend their products with a vengeance and that the only way you can collect is to hire a lawyer who is going to have to be a very accomplished person in the field and that most of the money which could be used to pay people for their injuries is going to the insurance companies and lawyers instead of to the victim.

It is a little shortsighted, however, to blame the insurance industry and the legal profession. It is almost like criticizing the Green Bay Packers for tackling and blocking when the rules of the game call for this conduct. The system still is one of paying only upon proof of a certain condition. Thus, we have not advanced all that far, even though the law of products liability has been somewhat of an improvement over the pure negligence system.

The law of product liability has about reached its zenith in terms of compensating victims. In order to expand the law beyond the conditions for recovery which were mentioned above one has to cast loose from these conditions. Once having cast loose from the conditions, how does one determine whether the manufacturer should pay for something short of paying for all accidents involving a product. In other words, if a person falls off a ladder, smashes his finger with a hammer, burns himself on a stove, or walks through a plate glass door, should the manufacturer have to pay for this regardless of the actions of the consumer? Theories about extending no-fault insurance to products liability are weak in this area. In other words, can you attribute accident costs to a manufacturer without some concept of causation? Attribution assumes direction. In the past causation has been defined in terms of fault--whoever negligently causes injury to another has to pay. Then we went to so-called strict product liability which still involves nuances of negligence. Even in the cases of defective products one still has to prove that the product is unreasonably dangerous. Thus, the law of product liability will not carry the consumer much further in his and her goal to distribute for more people the costs of accidents in our society.

A solution is that the insurance industry do a lot more to satisfy these societal wants. For instance, why is it that the casualty insurance industry, which no doubt has good reason to view the world through tort law, does not expand coverages under home owners' policies so as to compensate people who are involved in accidents? Also, other types of insurance could be marketed either by the health and accident insurance industry or by the casualty insurance industry. More of the societal demands could probably be met today through voluntary marketing by the insurance industry of coverages designed to meet accident losses. Responsibility--or internalizing of costs--need not be abandoned. The insurance company after paying an accident loss victim could seek to put the cost back on the entity which "caused" the loss. This would not have to be as expensive an operation as it is today because it would probable not be politically impossible to have statutes compelling arbitration in these cases. The rules of evidence and other procedural

rules could be loosened in these behind-the-scenes loss shifting and distribution processes without doing much, if any, damage to the rights of the citizenery.

Finally, if the private industry will not engage voluntarily in this type of activity, it is apparent to me that the government, as usual, will step in where private enterprise leaves a vacuum. We have seen this time and time again and it will happen in the case we are considering. For instance, what will happen if we get national health care insurance? Would not a next logical step be to make national health insurance the exclusive coverage for medical costs thus displacing private insurance. Also, would it not be a logical argument to say that other government benefits such as social security, temporary disability ininsurance, workmen's compensation should also be primary, if not exclusive.

No doubt there is an appropriate place for governmental action in the realm of accident losses. It lies in the area of catacylsmic type losses either through direct tax subsidy or through a reinsurance program for losses in excess of certain amounts. The private insurance industry has served this country well and should continue to serve it in the future. However, it can only do so if it takes the initiative and uses some imagination to satisfy the desires of society with regard to compensating for accident losses. If it does not do so, there is no doubt that it will ultimately lose out to government programs.

AN INDUSTRY VIEW

Mr. T. Lawrence Jones*

The insurance industry is actively involved in helping to stop losses from increasing, but in the area of product liability the industry has not been successful. Recent court awards have made product liability insurance so expensive that we believe the consumer will ultimately suffer--through the industry's financial inability to continue to provide insurance. Encouraged by the plaintiffs' bar, the populace has adopted the proposition: "Sue. How can we lose?" This proposition demonstrates the perversion of the tort liability system. AIA has proposed changes and improvements in that system, especially relative to product liability cases.

Many industries are caught in the "product liability problem"--many of them much more ominously than insurance--the problem's appearance would seem to place insurance at its hub. For example, though a manufacturer may have been adjuged negligent and may have a judgment lodged against him, the judgment will probably be paid by his insurance company, and so, it is only when his insurance premium rises--sometimes out of sight--that he really comes to grips with the problem.

I shall certainly speak today from the viewpoint of insurance. We in the property-casualty insurance industry believe that our role and responsibility in the problem must make us active participants. It would be easy enough for us to proclaim something simplistic, such as "When losses go up, premiums must go up. When losses go down, premiums will go down, too." We want to assure you that we do not accept such a passive role. We recognize a responsibility to help and serve our customers--to help stop losses from going up.

Insurance may seem to be a simple system of spreading risk, but in recent times--especially with the advent of the automobile--so many risks have emerged that insurance has come to mean much more than that. It has become a required, often dominant, part of financial responsibility in this country. Many people must have it, by law. So frightful has the possibility of great financial loss become that whether people need insurance by law or not they certainly need it for simple prudence. Insurance is now a necessity. That is why we are regulated by 50 state governments and why we cannot merely sit back and adjust rates, ignoring the events that cause those rates to fluctuate. However, we have come to wit's end in this product liability dilemma.

The following event happened.

A man whose drivers license had been suspended, who knew his car had faulty brakes, was at a party drinking. He left the party after

*President, American Insurance Association

one-thirty in the morning and half an hour later the police spotted his car passing another illegally. They signaled him to pull over, but he accelerated. He later claimed his accelerator was stuck. Other testimony, however, showed that he braked the car at least twice, skid marks showing his defective brakes.

So, with bad brakes, accelerator depressed, approaching 80 miles per hour, police car in pursuit, the man came to a railroad crossing. A train was coming. The man did not or could not stop. His car was struck by the train and thrown in the air. It came down on a phone booth, one of those glass types, along the road. Inside the phone booth, a man was making a call. The crash crushed both his legs and he was rushed to a hospital where both legs were amputated. Our man driving the car ran away but later surrendered. He had no auto liability insurance.

The driver of the car was held liable for damages, of course, but the judgment against him was worthless since he had no money and no insurance. So, what did the court do? They issued a verdict against the General Telephone Company of Pennsylvania for $216,000--and the verdict was upheld on appeal. For those of you interested in sources, I cite the Pennsylvania case reported at 339 A 2nd 545 (1975).

The court felt that the telephone company in providing the booth was negligent in not locating it in a safe place, a place immune from crashing automobiles that have been hit by locomotives. One wonders what the court would have decided had the victim been mailing a letter. In fact, the court was applying what some authorities have called the "deep pocket" theory of compensation. Courts do not look simply toward the negligent party, they look to the party with the money.

Here is the often quoted case of the Havir Manufacturing Company, a manufacturer of bench presses. Three years ago Havir was hit by a series of law suits. Plaintiffs were claiming injury by Havir's defective products. Havir contested the cases. They lost few. Even so, the cost of defense was such that the company's premium for product liability insurance rose from $2,000 a year to $10,000. A year after that, the insurance company no longer wanted Havir as a risk and cancelled the policy. Havir could not get insurance elsewhere for under $150,000. Feeling they could not afford such a premium, they decided to liquidate.

Here is another case.

Randy, 15, and Nancy, 17, decided to perfume a lighted candle. Randy grabbed a bottle of Faberge's Tigress Cologne and began to pour its contents onto the lower portion of the candle. A burst of flame burned Nancy. The court upheld liability against Faberge because there was no warning that the perfume was flammable.

A member of AIA staff recently invested about $8.00--it may have even appeared on his expense account--for some products. His major purchase

was a bottle of Faberge's "Tigress" Cologne which he bought on February 10, 1977 at a cost of $4.50. It did not bear a warning indicating that it may be flammable. Apparently, Faberge determined that the possibility of another occurrence similar to the Moran case was remote.

In the case of Reyes V. Wyeth Laboratories, Angela Reyes contracted polio after having taken Sabin Oral Polio Vaccine. The jury was allowed to conclude that she had caught the disease as a result of taking the vaccine. The probability of her having contracted polio from a wild strain was 1 in 3,000 while the chances of her having contracted the disease from the Sabin Vaccine were less than 1 in a million. The court concluded that there must be a warning of any risk--no matter how small.

How does one mark a safety pin with a warning "Do not swallow when open"?

These events and conditions leave us with rhetorical questions that cannot be answered--not by us, not by the victims, not by the courts. Shall roadside telephone booths be made like Patton tanks--or located far from the road? Shall perfume carry the warning: "Flammable. Do not use near heat or flame"? Shall polio vaccine be labeled, "Use at your own risk"?

Now, we in the property-casualty insurance industry realize that many of you--especially you in this room--can brush by the ludicrous sound of the rhetoric I have used, and answer yes to each question. For the person whose perfume actually burned her, a warning label on the bottle is no laughing matter. Victims injured have a right to be made whole. Then where is the problem? Who objects to this?

We think that, in the end, the consumer will object. He will object because he may not be able to afford it. It is from the consumer that ALL the money in the insurance system comes. The industry reaps little or no profit, so far as we can determine, from product liability coverage. It is difficult to ascertain because companies are liable for losses caused by products made twenty years ago and will be liable twenty years from now for products being made and used today. But I can tell you this: If the 50 state insurance departments were suddenly to prohibit insurance companies from writing product liability coverage, you would not see one tear shed in Hartford.

Of course, companies have investment income, but this often amounts to a cushion against catastrophe rather than a contributor to windfall. After the last two years of horrendous losses, I doubt if many insurance companies would be alive today were it not for investment income. Yet, too many people envision the insurance industry as possessing some vast, inexhaustable vault of funds buried deep beneath Chicago or Hartford or Philadelphia. We depend on a flowing system--rather like a pari-mutual race track. We collect all the money paid in, subtract some for taxes, expenses, reserves, and profit, and pay all the rest out for claims. We cannot pay out more than we take in, yet the courts think we can--that somebody must -and the product liability crises result. When infinite largesse meets finite resources, something has got to give.

This problem has been exacerbated in recent years by a definite shortage of insurance capital. The shortage has been caused in general by underwriting losses and by huge demand, as more and more people in more and more lines of business enter the marketplace. Properties become more valuable. Compulsory automobile insurance grows. Limits of damage coverage increase. Workers' compensation benefits grow. We have found that rates cannot be adjusted fast enough, with or without stringent regulation, to accommodate all the demand. Risks must become more selective.

Yet, we believe that this is only a contributory cause of the product liability dilemma--that the root cause is the general breakdown of the tort liability system itself.

The courts have failed to follow established liability standards and this has blurred guidelines applicable to manufacturing technology. The manufacturer today cannot look to the law to anticipate the potential degree of responsibility. For example, taking the duty-to-warn cases, there is no way a manufacturer can be legally certain that he has complied with every requirement of warning, that he has provided the user of his product with all of the information that the user ought to have in relation to every conceivable use or misuse.

When the tort liability system operates correctly, it should not only provide compensation but should provide incentives and standards for potential defendants such as manufacturers. It should tell them what they ought to do and whether or not they have complied. The courts, which have had responsibility for administering the tort system, have not carried out this function.

There are, of course, other problems with the current tort system, some of which cannot be reformed by legislation. It now appears that damages awarded have become excessive. In Europe, an award for pain and suffering usually consists of a small fraction of the actual economic loss. In the United States, awards for pain and suffering are usually multiples of the actual damages.

Neither of these misuses of tort law really encompasses the root of the problem either. The fact is that tort law has come to be used in a perverted manner--a manner for which it was not designed and by which nothing less than perversion of our entire social structure can result. That perversion is best and most easily observed today in the condition we mean when we say, "Everybody is suing everybody." Supported by the plaintiffs' bar, speculative damages are sought like sunken treasure ships. Sue! What is there to lose? Easy Street is close by. This sue-crazy attitude is a social perversion, based on a perversion of the tort system.

Professor Richard Expstein of the University of Chicago Law School has said:

> The "fashionable" proposition that the function of the law of tort is to provide compensation to make injured persons

> whole, to the extent money can do it, sets the wrong framework for evaluating particular rules of tort law. It is the very essence of any system of tort law that the defendant's wrongful conduct...lies at the foundation of tortious liability.
>
> To allow loss-spreading issues covertly to dominate the structure of the tort law will only produce unsound results and bad general principles; it will only bring the law and the courts into disrepute as the courts say one thing and do yet another; it will only call into question the solid arguments of traditional tort law, as they are overshadowed by current excesses of judicial doctrine; and it will so overshadow the tort system that it will destroy its effectiveness in situations where it has worked so well in the past.

The Professor was speaking before the California Citizens Commission on Tort Reform, a group which I believe has an excellent chance of developing answers to the tort perversion questions. Meanwhile, he has assisted us in development of our own proposals.

We believe that these proposals, to ease the product liability crisis, are responsive to the immediate needs of the day. We do not think they will solve all of the problems. We have attempted to address the most severe problems and those where the greatest inequities occur. We have drafted a statute of limitations which will put the obligations of a manufacturer within reasonable temporal limits. The greatest inequities arise in those cases which involve manufacturers of long-lived products. Under the current state of the law in most states, the statute of limitations applicable to product cases arises upon occurrence of the injury. This means that a defendant who may have created or dealt with a product 50, 60 or 70 years ago remains liable for that product even today. We believe that this is an inequity unmatched by any requirement of society. Accordingly, we have drafted a statute of limitations which would limit such liabilities.

We have also drafted a defense which is based upon the modification of a product by a party other than the defendant. It is not appropriate for a manufacturer of a product to be liable for damages which have resulted from tampering or adjustments made by others without his consent and without his knowledge.

Defenses based upon the state of the art have been subject to substantial erosion in recent judicial decisions. It is our belief that this is a problem in the so-called design cases. Accordingly, we have drafted a statute which would grant the defense to any manufacturer who has designed his product in accordance with a substantially accepted body of industrial practice. The subtleties of design choices are often much too complex to allow a jury to make the final liability determinations as now occurs, particularly under the doctrine of strict liability. A second portion of our state-of-the-art defense would also provide that

there shall be no liability for injury flowing from dangers inherent in a type of product which were not discoverable at the time the product was released. It is important to understand that we are not talking here about risks which were knowable. We are simply dealing with cases where neither the manufacturer nor others engaged in similar trades or businesses could know of the possibility of a particular risk. There should be no liability for risks which are knowable only by reason of technology developed subsequent to sale.

We have also drafted a proposal which would recodify a basic rule of evidence. Evidence of improvements made in a product after occurrence of injury should not be admissible. This is a basic rule which has its origins deep within the common law system. Its public policy purpose is to avoid evidentiary rules which would discourage correction of defects.

Our most ambitious draft has been a statute relating to the duty to warn or instruct. But no warning can be complete and definitive. Unfortunately, it is beyond the power of our legislative drafts to define the exact contents of a warning, and it is planned that subsequent reports will undertake a rational consideration of this issue.

Another proposal by the American Insurance Association is an attempt to rationalize the award of punitive damages. We propose to limit awards to the appropriate cases.

We believe adoption of these proposals, limited though they are, will help judiciary, industry, and consumer toward a more equitable, and more workable, system of risk in this country. But they will not find their most effective use unless they are joined within the public by a more educated, more rational approach to the concept of risk itself. If victims insist on grasping for all the traffic will bear, their friends and descendants will be left with no traffic at all.

THE ACCI, ITS RELATIONSHIP

TO CONSUMERS, TO GOVERNMENT AND TO BUSINESS

Authors listed in text in order of presentation

A panel discussion was initiated to determine what should be the relationship of ACCI with the business community. After all comments were made the following motion was adopted: "That ACCI not associate itself with any commercial, profit-making organization either financially or in name other than to provide exhibit space at the annual conference for those firms meeting current policy guidelines. Business contributions to the Colston E. Warne Lecture Fund will be allowed without public recognition of the contribution."

Dr. Richard Morse*

The history of the American Council on Consumer Interests is notable on three counts. First, ACCI has avoided identification with commercial enterprises and their associations. Second, the leadership in ACCI has recognized an inequality in consumer education thrust. The thrust between those whose primary interest is in the consumer and those consumer educators whose primary interest is to profit from having the consumer make better choices, hopefully, but essentially and inevitably choices that are better for those who are engaged in the consumer education. Third, ACCI has been undernourished financially from its start, but is extremely rich in its talent. It has succeeded essentially by the investment of good will on the part of persons who are non-commercially oriented. It is the only consumer education organization in the United States without commercial support.

The absolute standard of no commercial ties is simple to interpret. Deviation from a simple standard can lead to extended discussions as to whether a little bit of departure (no matter how small or how big) is too big. Second, with empathy to the Board of Directors; they have a tough time when they get together once, possibly twice, a year. They spend an awful lot of time running this organization, and I hate to see them burdened with extra concerns on the gray zone of tempering whether or not a little bit of commercialism would be acceptable. Third, there is precedent of other organizations of which we are familiar in home economics. I can well remember Colston Warne waiting at the door of American Home Economics Association when I was on the consumer interests committee asking to come and meet with us and being turned away. There is no turning back once we start with commercialism. And I would rather see ACCI continue, therefore, in a non-commercial identification role and do the best it can.

*Chairman, Family Economics, Kansas State University

The final point is that I think we should be able to distinguish between our role here for what is good for ACCI and what our role is as an individual. We have to distinguish between our personal lives--because we have to live with ourselves. ACCI is run by a Board of Directors that meets once a year and rotates consistently and it is hard to have them live consistently with themselves. Furthermore, I think it is up to your own standards.

Dr. Stewart Lee*

Back in the 1930's a fledgling consumer institute was established at Stephens College in Columbia, Missouri. In 1939 some advertising and marketing people set out to capture the institute. But failing that, they set out to destory it and they did.

We have seen many in the business community take an active role in stimulating consumer input into their businesses, in doing a better job in serving consumers, and in appointing persons on their staff to represent the consumer position on company issues. But we have to be realistic and recognize that in the marketplace there are buyers of goods and services and sellers of goods and services. A person would have to be very naive to believe that the interests of buyers and sellers are the same. This is just not so. The buyer wants to pay as little as possible and get as much as possible while the seller wants to charge as much as possible and give as little as possible. But neither should be able to get just what he wants IF the competitive free enterprise system is working adequately. That IF is a very important qualification. Certainly all of us recognize how dependent buyers are on sellers and how dependent sellers are on buyers. We are mutually dependent on each other. But dependency does not make their interest mutual. Buyers and sellers represent two very distinct parts of the market economy. ACCI was established to further the interest not of both buyers and sellers, but of the consumers of goods and services through an expansion in the breadth and depth of consumer education. ACCI must never deviate from the foundation from which it has grown. Consumers Union has set an excellent example for ACCI. CU has been successful because it has maintained its integrity and people have had, and continue to have, confidence in its absolute separation from seeming or actually being affiliated with the business community. Where would CU be today if it had not built on its foundation a separate business and had not maintained its position. Consumers Union must be as pure as Caesar's wife. Can ACCI be any less pure?

Many of you are aware of the credibility problem with regards to the Consumer Federation of America. Its linkage with labor unions has created many problems for CFA. It has been discredited in the eyes of many people because it seems to speak in the consumer's interest only as long as that does not conflict with the union's interest. Fortunately, most of the

*Chairman, Department of Economics & Business Administration, Geneva College

time the interest of CFA and one of its very significant funding sources, the union, are the same.

ACCI must not allow itself to get in any position where the Board of Directors feel pressured into compromising on the basic tenent of the foundation of ACCI or compromising its integrity and credibility. This issue of the relationship of ACCI to the business community has come up for discussion a number of times over the years. It should. It deserves to be considered by the membership in open discussion. But it must be considered in as intellectual, unemotional atmosphere as possible. It can become a very emotional issue and I think those who have been at past sessions know to what I am referring. But it is imperative that we maintain the discussion at a high intellectual level in keeping with the best tradition of a professional educators' organization. We must all be willing to recognize differences in opinion, to give all sides a fair hearing, and then when decisions are made be willing to accept, not necessarily be persuaded, but accept the decision reached in the best tradition of a democratically operated organization.

Dr. Helen Nelson*

We have to look at the consumer in this country to see what we are representing as consumer professionals. The consumer does not have as an element in our society as much sense of pride and competence as belonging to a group. I would hope that ACCI would recognize the potential role it can play in building a sense of pride and a sense of identity in the American consumer as an independent person with rights and responsibilities and not merely dependent upon the good will of business or of government. I think we have to see what we can do as role models, as examples of professionals, to aid every consumer to emerge into an independent, determined role.

The consumer activist organizations, most of which have come into being in the last ten years are still, by and large, accepting the dependency role. They spend more time trying to raise funds, trying to get a government grant, trying to get some money to represent consumers' interests before government agencies, than they do in thinking through service to members that would build dues-paying members. This phase is going to pass but we will not have a strong consumer movement in the United States until there are more organizations like Consumers Union and ACCI which support themselves with fierce independence by a service to their membership. Again, ACCI can serve as a model to many of the young, emerging consumer organizations, if we project an identity of proud and fierce independence.

Every action that an organization takes establishes precedent for the people who come after.

My position is: take their money, lend them our name only when the joint program entered into merits a higher priority in advancing members'

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welfare than any other program the organization could undertake to benefit its members. I suggest that will be very seldom. Even then we should be certain that any program that carries our identification should also bear our stamp. It should be our program developed with ACCI in an active role. If we give our good name away at ACCI, we cannot take it back.

Dr. E. Scott Maynes*

Three considerations favor possible collaborations with commercial organizations. First, collaboration with commercial organizations is likely to be mutually instructive. Second, with certain precautions such collaboration will not jeopardize the consumer interest nor the reputation of ACCI. Third, such collaboration enlarges the resources available to ACCI and to the furtherance of the consumer interest.

First, Collaboration is Likely to be Mutually Instructive. It has been my good fortune to occupy a producer role in two large consumer organizations, as a Board Member of State Capital Credit Union in Minnesota and Consumers Union. Just as these experiences were useful to me in understanding producer concerns, so would contacts with consumer representatives "instruct" business representatives as to consumer concerns. I am convinced that ACCI representatives can learn about producer concerns without abandoning their loyalty to the consumer interest. ACCI and commercial organizations alike are united in a common desire to maintain and improve the functioning of the market portion of our economy.

Collaboration Will Not Jeopardize the Consumer Interest Nor the Reputation of ACCI. Procedures to assure the protection of the consumer interest in any collaboration between ACCI and commercial organizations may be embodied in three rules. First, collaborate only when consumer representatives have equal or majority control over resources and arrangements. Second, take care that ACCI is represented in any such collaboration by individuals of unquestioned competence, loyalty to the consumer interest and administrative skills. Third, incorporate escape mechanisms into any collaboration providing for both periodic review and possible withdrawal by ACCI in case the collaboration turns out to be unsatisfactory. The ultimate test comes from the results of the collaboration. Should ACCI not like the "fruit" of a particular collaboration, the procedures instituted that were just cited will facilitate the modest corrective step of changing representatives or, more drastically, complete withdrawal.

Collaboration Enlarges Resources Available to ACCI and the Consumer Movement. In my judgment the cost of purity is slower growth and less influence for ACCI and the consumer movement. The problem is that both ACCI and the consumer movement stand as bodies in search of means of

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financing. The aggregate resources devoted to consumer information and persuasion are probably now divided between business and consumer control as they were in 1970 when business controlled 67 billion dollars, and consumers controlled 13 million dollars, a ratio of 5,154 to 1. This represents an indefensible imbalance. In the long run ACCI should seek a more equal division of control over these resources. For now the only substitute is collaboration with business. They possess the funds: we do not.

Dr. Carole Vickers*

One concern that all of us have is in protecting and preserving the integrity of ACCI, and it is possible for our own organization to maintain its integrity and collaborate on specific projects under controlled conditions as it is for me personally to collaborate with profit-making organizations or with government and maintain my own personal integrity as a scholar. The integrity of ACCI is above reproach. We have established and maintained this organization as an independent rational voice for professional consumer educators. We strengthen our integrity when it is on the line not by maintaining an antiseptic distance from the action. We need to remind ourselves that we are considering the feasibility of collaborative efforts and that there is still the opportunity for evaluating each specific proposal.

Many commercial organizations have consumer education as one of their corporate goals. Most of us agree that the primary purpose of any money-making organization is to turn a profit, but many of them also disseminate educational materials and sponsor educational programs. No action or inaction by ACCI will dissuade them from this activity. When it is mutually advantageous, ACCI should influence the educational efforts of those corporations. Many of the best minds in the field of consumer affairs are found among our membership. If we cared to collaborate with commercial organizations, we could assume that our expertise would be available to them. It is my experience that there is always someone out there who is willing to act as a consumer expert. If ACCI withdraws, the best the responsible producer can get is second best.

The question is what activity does ACCI as an organization of professionals provide that separates us from any trade association. If we act only in our own interest as opposed to improving the educational input, quality, etc. of consumers in the marketplace, then we tend to justify our existence as a professional organization, not as a trade association.

Finally, we must ask where we want to be when the accuracy of consumer education content needs to be questioned. In the whole area of consumer information, we should have our inputs where we have our fingers in the dike and can help to control the flow of information rather than standing on the other side stuffing sandbags after the dissemination has already taken place. We can better spend our time trying to improve the quality of these education projects than having to appear negative

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when the project does not turn out to be consistent with our best interests. There are disadvantages that occur in following the participation of jointly sponsored projects. However, there are also advantages that merit our consideration as we as an organization attempt to formulate policy.

Ms. Edna Johnson*

Throughout the country more and more people are becoming interested in consumerism. Special summer programs as well as numerous in-service programs are being conducted to educate those persons who are teaching consumer education. The best possible source of materials and information is a must, and ACCI represents the most reliable source at this particular time. ACCI is the source of the best information to educators in the consumer field. Its membership should include those in the classrooms, those who are being prepared to leave the classrooms to provide services, those persons who have left the classroom to serve with the government in any role whatsoever, those in industry and in the academic world. These persons should share a common goal: to inform and educate other consumers. As members of ACCI they should readily serve as the best possible sources of coordinating unbiased and forthright consumer products that would benefit the general public. ACCI is the only organization to provide the expertise to see that quality in consumer education is given. Now, the business, industrial, and governmental world is already reaching the consumers in many ways. Many of them are using consumer educators, both ACCI members and non members, to help develop their material. A three and one-half month research study in 1972 revealed that the more successful programs were those that were cooperative ventures between consumer educators and businesses using the consumer educator as a consultant.

ACCI should provide expertise at seminars, conferences and workshops being sponsored by business, industries and government. ACCI can only provide this kind of cooperative effort if it is involved in the planning stage with some kind of equality. It cannot stand apart and then criticize materials and information presented as consumer education.

*Associate Director, Baltimore Urban League

IDENTIFYING FACTORS ASSOCIATED WITH SUCCESS IN OVERCOMING FINANCIAL DIFFICULTY

Ms. Julia Marlowe*

More Americans are finding themselves in overextended debt situations marking the problem as a serious threat to thousands of families. This study deals with the problems by identifying factors which discriminate between those families liquidating their debts and those families that do not. Some key aspects of consumption patterns which discriminate between the two groups are identified and implications for further study are noted.

Introduction

Given the increasing complexity of family financial management, the growth in personal debt and the uneven performance of the economy, it is not surprising that numerous American families encounter financial difficulty. Some families continue to cope with those problems over extended periods. Others ultimately must file for bankruptcy. In some cases, however, families with serious debt problems overcome these difficulties. This study analyzes factors which distinguish the last group from others who are less successful.

Little is known about the manner in which families cope with financial difficulty. Using survey data on consumer finances, Ryan and Maynes developed a profile of consumers who were likely to encounter difficulty.[1] Garblowsky concentrated on measures based on cultural-social-psychological variables, but without establishing any firm relationships.[2] Caplovitz's study is one of the most extensive, but it is largely descriptive and nonanalytical.[3] These studies focus on how families get into debt. Even less attention has been given to the question of why some families, once in serious debt, manage to get out. In dealing with that question, this study relies on data from the files of the Consumer Credit Counseling Service of Greater Knoxville, Tennessee (CCCS). The research question then becomes: what factors distinguish those families that successfully complete the credit counseling program from those that do not?

Sample Description

The sample consists of 292 cases completed between 1973 and 1976. Most families in the sample were in the lower-middle income bracket, which is

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typical of those in financial difficulty.[4] Because of regional factors, the sample may not reflect the precise characteristics of the national population of overextended debtors. While income in the South is rising, the median income for the region in 1975 was $1,500 below the national median.[5] The Appalachian culture may also introduce personality differences which distinguish the sample from the total population of those in financial difficulty.

Case disposition of CCCS clients falls into one of two categories, successfully completed or dropped out. Of the total sample 55 represented successful completions. The other 237 dropped out of the program at some point.

The character of the study was necessarily limited by the available data, which did not include information on asset levels. Some indicators of assets are available, but were not considered sufficiently reliable to employ. However, the problem is minimized by the fact that most clients are from the lower-middle income range and shared low levels of assets. Thus, while the role of assets could not be analyzed, asset levels should not have produced a significant bias. The analysis is limited to a study of objective variables. Survey data could provide additional information on personality and related traits, but only at an extremely high cost in terms of complexity and smaller sample size. Furthermore, the objective financial variables discussed below offer a logical starting point for the inquiry.

Theoretical Framework

Economic theory offers little insight into the problems of families in financial difficulty. Most theoretical work applies to highly aggregated data, where individual variations would be averaged out. Nevertheless, certain theoretical developments do bear upon the question. Dusenberry's relative income hypothesis could explain why some get into financial difficulty. If a family's consumption was based on a standard of living to which it was accustomed in the past, but could not afford now, an extended debt would likely occur.[6] Friedman tied permanent consumption to permanent income, the latter being the discounted value of the lifetime earnings flow. Thus, the value of that flow at any point in time would determine consumption. Introducing imperfections of information and expectations, on the part of the consumer, into the theory results in the possibility of consumers getting into financial difficulty.[7]

While these theories may be modified to help explain how people get into financial difficulty, they do not offer explanations of why, once in difficulty, some get out and others do not. Furthermore, theory does not treat situations leading to debt trouble such as loss of job, medical expenses and marital difficulty. One might hypothesize that the trauma of debt causes families to alter consumption, enabling some of them to work their way out of debt. Thus, it is that trauma, not relative or permanent income, which becomes the dominate factor in determining consumption patterns. If that is true, then distinguishing characteristics should be evident in the family's consumption pattern.

In less comprehensive terms, theory offers more guidance. The relationship of expenditure patterns to income is well established.[8] Similar variation can be expected in terms of family size and composition. As discussed below, these patterns provide guidance in identifying likely explanations to the research question.

Methodology

The total sample was divided according to case disposition, with those who had successfully completed the program in one category and those who had dropped out in a second. Objective variables were used to discriminate between the two groups in terms of the specific hypotheses developed below. Since the dependent variables are categorical, discriminant analysis was employed. This approach identifies those independent variables which discriminate between the two groups. A significance level of .05 was set for evaluating the variables entered in the analysis. Since a stepwise program was used, variables were entered in order of their significance, but only those variables with sufficient discriminating power were entered (based on an internal significance test). Further, a variable could be entered and later dropped if its discriminating power is reduced when later variables are considered. Thus, the program offers a valuable measure of interaction effects. The program also reclassifies the cases (independent of their original classification) into either successful completions or dropouts according to the discriminant function. This provides a measure of how well the discriminant function predicted case dispositions. To facilitate comparison, ratio data were expressed as percentages of either debt or income (except for debt and income themselves, which were expressed as levels). Actual computations were made with all data in logrithmic form.

Objective Variables

Variables in this study can be divided into three categories: aggregate financial measures, component financial measures and variables concerning non-financial matters. The objective variables included in the study are listed in Table 1.

TABLE 1

Listing of Variables

Aggregate Variables	Component Variables	Non-financial Variables
1. Yearly income, both net and adjusted 2. Total debt: yearly income 3. Monthly debt while in the program to monthly debt before entering the program	4. Monthly house payment 5. Monthly utility payment 6. Monthly car payment 7. Total medical debt	8. Number of dependents 9. Stage of the family life cycle

Data from the CCCS files express income in terms of net earnings. Because needs increase with family size, an adequacy measure based on a poverty threshold for family size and composition was used to arrive at an adjusted family income.[9] On the basis of these variables it is possible to formulate the following series of hypotheses:

H_1: families with higher income levels will be more likely to successfully complete the program.

H_2: the higher the debt:income ratio, the less likely the family will be to successfully complete the program.

These hypotheses apply to both adjusted and unadjusted income with the expectation that adjusted income will be a better discriminator. Higher income has been associated with less financial trouble, and Ryan and Maynes also suggest the debt:income hypothesis.[10,11] The rescheduling of debt payments does not reduce debt but does enable families to meet payments more easily, given their income constraints; therefore:

H_3: the greater the reduction in monthly debt payments through rescheduling, the more likely the family will be to successfully complete the program.

The minimal financial counseling provided by the CCCS includes a suggested living expense budget. If this budget is very low, clients may have difficulty adhering to it. Since the composition of consumption changes over income levels and over families, housing payments and utility bills should provide additional information. Thus, the following hypotheses can be developed:

H_4: families with lower living expenses will be less likely to successfully complete the program.

H_5: lower levels of housing costs will be associated with successfully completing the program.

Ryan and Maynes found that families owning two or more cars were less likely to have debt trouble.[12] If this can be generalized, then:

H_6: families with higher car payments will be more likely to successfully complete the program.

Medical debt represents a special case in this analysis for several reasons. First, medical expenses often reflect a major expenditures which significantly increases debt. Second, since medical insurance may be limited or unavailable, medical costs become a particularly significant factor for lower-middle income individuals. Furthermore, if temporary disability results in loss of job, the family is presented with the dual problem of mounting debt and loss of income. Medical debt is essentially different from other debts in that it is largely unplanned. Large medical expenditures do not reflect personality traits and personal consumption patterns, but rather represent a form of forced consumption. Therefore, the difficulty in such cases would not be with the family's basic consumption

pattern. This leads to the hypothesis:

H_7: families with higher medical debt will be more likely to successfully complete the program.

Two non-financial variables were included in the analysis, with the following hopotheses:

H_8: families with more dependents will be less likely to successfully complete the program,

since more dependents place greater strain on the family income.

H_9: stage of the family life cycle is expected to be a significant discriminator between the successful completions and the dropouts.

The total sample was segmented according to three different classifications: (1) income level, (2) number of dependents and (3) stage of the family life cycle. These were chosen as logical elements which bear upon both a family's consumption and its ability to deal with financial problems. In turn, this provides another hypothesis:

H_{10}: variables with discriminate in one classification will not necessarily discriminate in another.

Results

The results from the entire sample are summarized in Tables 2 and 3.

TABLE 2

Summary of Critical Values: Entire Sample

Sample Size		Eigenvalue	Canonical Correlation	Significance Level	Prediction
Success	Dropout				
55	237	.04488	.207	.027	61%

Source: Data from the Consumer Credit Counseling Service of Greater Knoxville, Inc.

TABLE 3

Significant Variables: Entire Sample

Significant Variables*	Mean Values	
	Success	Dropout
1. Total debt: income 2	38.1%	46.1%
2. Medical debt: income 1	20.9%	15.0%
3. Monthly debt 2: monthly debt 1	64.7%	66.0%
4. Car payment: monthly income 1	4.4%	3.8%
5. Living expense: monthly income 1	40.5%	42.1%

*Income 1 refers to unadjusted net income. Income 2 refers to adjusted income. Debt 1 refers to debt before entering the CCCS program. Debt 2 refers to the debt payment scheduled after entering the program.

Source: Data from the Consumer Credit Counseling Service of Greater Knoxville, Inc.

Five variables were identified as discriminating between the two groups, but explanatory power and significance levels are poor. Discriminant analysis says simply that a particular variable discriminates between the two groups. The technique does not note how or why the variable discriminates. The how can be answered by referring to the mean values in Table 3. The why must be answered by the theoretical basis for the hypotheses.

Three of the five variables are aggregates--total debt to adjusted income, monthly debt in the program to monthly debt before the program and living expense to unadjusted monthly income. Referring to the table of mean values shows that hypotheses H_2 and H_3 are supported, in that successes had a lower debt:income ratio and a greater reduction in monthly debt payments. However, H_4 is not supported by the mean values; the successful completions had lower living expense allotments. This result may reflect the relation of the client's living expense while in the program to living expense before the program. However, data in this case were incomplete. Both higher car payments and higher medical bills showed a significant association with successful completions, supporting hypotheses H_6 and H_7. The successful completions had a higher medical debt and higher car payments, but a lower debt: income ratio, pointing to medical bills as the major component of their debt. The unplanned medical debt, therefore emerges as a likely source of the families' financial problem.

When the discriminant function was applied to all the cases in the sample, independent of their actual case disposition, 61 per cent of the cases were classified correctly. As the eigenvalue suggests, however, the five variables explain only a small part of the actual variation. Canonical correlation is similarly low; the significance level is .027. Thus, relationships are weak, suggesting that while certain key relationships may have been identified, other effects still predominate.

The second step in the analysis was then to segment the sample according to income level, number of dependents and stage of the family life cycle. The discriminating power of the analysis did not improve when the sample was segmented by income. Segmenting according to family life cycle did improve results, but the changes were minimal. However, when the sample was segmented according to number of dependents, the results improved significantly.

Dependents were categorized into five groups: cases with zero dependents, one dependent, two dependents, three dependents and more than three dependents. The results are summarized in Table 4.

TABLE 4

Summary of Critical Values: Sample Segmented by Number of Dependents

Number of dependents	Sample Size S	Sample Size D	Eigenvalue	Cannonical Correlation	Significance Level	Prediction
0	14	39	.086	.282	.0410	68%
1	5	45	.496	.576	.0120	88%
2	12	58	.207	.414	.0580	69%
3	12	46	.690	.639	.0003	64%
3	12	49	.162	.373	.210	67%

Source: Data from the Consumer Credit Counseling Service of Greater Knoxville, Inc.

While segmentation improves results, the pattern is uneven. The variables which best discriminate do change with changing number of dependents, supporting hypothesis H_{10}, that variables which discriminate in one classification will not necessarily discriminate in another. Variations also exist in the reliability of the different discriminant functions.

Eigenvalues range from .69 in the three-dependent case (indicating that the function explains most of the variation), to only .086 in the case of no dependents. The three-dependent case also has the lowest significance level, but prediction was best in the case of one dependent, where 88 per cent of the cases were correctly classified by the function.

On the basis of the original significance level of .05, the functions in the two-dependent and greater-than-three dependent cases would be rejected. The others may be accepted as providing significant discriminating power between the two groups. While reliability does not vary systematically with number of dependents, the results still indicate that there is a relationship between number of dependents and success in the program. Furthermore, the results support the following conclusions.

In all but the zero dependent group, medical debt (expressed as a per cent of income, adjusted income or total debt) proved a significant discriminator. This supports the hypothesis that those with higher medical debt

will be more likely to succeed in getting out of debt. Debt:income ratio and monthly debt 2:monthly debt 1 ratio were significant for the entire sample, but were significant in only two of the runs after segmentation by number of dependents. Car payment was significant for the entire sample and was also significant in three of the dependent group runs. The mean values of these variables support H_2, H_3 and H_6.

Some inconsistencies appear with regards to utility payments. In the run with one dependent and the case with two dependents, higher utility payments are associated with successful completion; however, in the case with more than three dependents, the converse is true making the results difficult to interpret. Since utilities are a relatively small percentage of the budget, it may be that they are a proxy for other elements. However, the sample covers a period when utility costs were rising sharply and therefore could have been causing problems. Ability to handle utility costs under these circumstances may reflect overall ability to cope with budgetary problems.

The significance level is worse (.210) for the case of more than three dependents. This suggests that as family size increases, more elements enter into the financial process making the process more complex with more variables to control for.

Conclusions

The statistical analysis answers the question: can the variables discriminate between the two groups? But in order to answer the question: why do the variables discriminate? a theoretical formulation is needed. While the first question represents a lower level of sophistication, it may nevertheless be important. A counselor, for example, could use the information in identifying families likely to have trouble getting out of debt. Even though there is not full explanation, the information can be useful in actually helping families.

Information on the number of dependents illustrates the point. While the relationship is not clear, the evidence supports the idea that there is some sort of relationship. Therefore, counselors should pay particular attention to the role of dependents in the family's pattern of consumption. Similarly, the role of car payments deserves attention, especially since automobiles are tied into both employment patterns (needing the car for work) and life style.

Extending this reasoning, the variables which were identified as significant emerge as logical topics for further research. Additional study should refine and expand the pattern of relationships. The role of utility costs is particularly important in this regard, given the increasing concern with energy and the probable impact of rising costs on families. Medical costs provide the most conclusive evidence. The behavioral implications of the hypothesis suggest that in such cases the established consumption patterns are sound and play a role in the family's getting out of debt. This finding deserves attention, particularly since its ramifications apply to broader policy areas such as national health insurance.

Having established that key aspects of consumption patterns discriminate between those who get out of debt and those who do not, the analysis indicates that further research should indeed be fruitful. Objective financial variables provide a basis for discrimination and indicate that the process is not random. At the same time, the discriminating power of these variables is limited and many questions remain unanswered. Personality characteristics were not analyzed here, but should provide additional information on how families cope with financial difficulty. Time series data would also be helpful in developing a more comprehensive analysis. Considering the cost of financial difficulty to the families involved and the public at large, more comprehensive efforts are clearly warranted.

FOOTNOTES

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2. Bernie Garblowsky, "An Environmental Model of Risk in Consumer Credit," The Journal of Behavioral Economics,(1974, 4), p. 107-144.

3. David Caplovitz, Consumers in Trouble: A Study of Debtors in Default, (New York: Free Press, 1974)

4. Mary E. Ryan and Scott E. Maynes, op. cit., p. 107.

5. U. S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States: 1975 and 1974 Revisions," Current Population Reports,(series P-60, No. 103, U.S. Government Printing Office, Washington, D.C., 1976)

6. Robert Ferber, "Consumer Economics, A Survey," The Journal of Economic Literature,(1973, 11), pp.1303-1333.

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9. James N. Morgan; Katherine Dickenson; Jonathan Dickinson; Jacob Benus; and Greg Duncan,Five Thousand American Families-Patterns of Economic Progress, Vol. 1. (University of Michigan: Institute for Social Research, 1974) (Adjusted income was calculated in the following manner: net income/poverty threshold x net income = adjusted income. Poverty threshold is the federal government estimate of minimum income necessary for a family of a particular size and composition.)

10. Gary Hendricks; Kenwood C. Youmans and Janet Keller, Consumer Durables and Installment Debt: A Study of American Households, (University of Michigan: Institute for Social Research, 1973)

11. Mary E. Ryan and Scott E. Maynes, op. cit., p. 102.

12. Ibid., pp. 107.

DEVELOPMENT AND VALIDATION OF A SIMULATED MARKET TO TEST CHILDREN FOR SELECTED CONSUMER SKILLS

Ms. Josephine Turner*

What skills are needed by consumers in order to function in the marketplace of the twentieth century? Can these skills be learned? If so, how might they be learned. This study investigated use of selected consumer skills by children of two ages. In order to do this it was essential to develop a measurement instrument. A simulated market was developed and used to determine each participating child's level of consumer competence.

Education aimed at increasing production skills has been a strong force in our society, while education aimed at increasing consumer skills has been minimal. Elizabeth Hoyt in the late twenties decried an educational system that fostered the development of production skills while ignoring the development of consumption skills. She proclaimed that consumer skills did not automatically come with the pay check, that they had to be learned.[1] While various consumer textbooks and guidelines have identified a variety of consumer skills needed to perform satisfactorily in a market economy, there have been few attempts to actually measure the use of consumer skills.

Among skills the consumer needs to know are: how to obtain and use information, how to pay for purchases, how to save money, how to compare packages to find which contains the most product, how to find unit price, and when to postpone present consumption. A need to change the status quo is being recognized by professional and educational groups. For example, five research goals identified by home economics administrators as research needs of this decade included research aimed toward improvement of consumer competencies and family resource use. Two specific goals were: (a) knowledge contributing to consumer's capacity to discriminate among alternatives in choice of good and (b) assessment of use of consumer information in choice making and use of goods.[2]

A consumer's capacity to discriminate among alternatives has been impaired by the increasing variety of goods offered on the market and by the pressures exerted on choice making by the mass media. While consumers make deliberate and subconscious choices daily that affect their level of living and in turn the quality of their present and future lives, their ability to assess and use information to guide these choices is often low. More information on buying skills and what

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influences their development is needed to enable educators and parents to help children improve their choice-making and buying abilities.

The purpose of this study was to investigate the use of consumer skills of children at two ages. As existing instruments measured only levels of cognitive development and not levels of buying skills, it was necessary to develop and validate instruments to measure the child's use of buying skills, and this became the primary purpose of the research.

The instruments were designed to show whether there were any relationships between the child's use of buying skills and (a) age, (b) sex, (c) occupation of head of household, or (d) money experiences and home responsibilities of the child. They were also designed to show whether market selections made by the child were related to the following purchasing procedures employed by the child participant: (a) number of alternatives examined in a market, (b) time spent in examining alternatives, (c) attempts to purchase in excess of purchasing power, and (d) examination or non-examination of a best buy.

Research Design

This study employed two different research tools: (a) two simulated markets with accompanying check sheets and (b) a parent's interview schedule. The simulated markets were developed to measure the use of selected consumer skills at three progressive levels of difficulty. Failure at a level terminated the child's participation in the testing procedure. The first level in the simulated market was developed to measure the child's ability to get a best buy. A best buy was considered to be three items as opposed to two items for the same amount of money. Level two tested the child's ability to compare quantity in different sizes and shapes of packages, and the final level tested the child's ability to compare price and quantity. The simulated markets were pretested with approximately 100 children of various ages to finalize the exact structure and merchandise to be used. The parent interview schedule, developed to record demographic characteristics of the child, opportunities provided the child by the family to have experiences using money and opportunities to share in family responsibilities, was tested at the same time. Concurrent consultation with experts in test and measurements, child development, and consumer economics occurred during development of the research tools.

Development & Validation of the Simulated Markets

A review of pertinent consumer education textbooks and guidelines suggested that among the consumer competencies a child should have are to: (a) see connections between work, income, and consumption; (b) evaluate alternatives in the market; (c) use money to purchase a good; (d) determine whether one has enough money to buy a desired item (this involves both the pricing system and coin recognition); (e) understand that one must sometimes forego present consumption and save in order to obtain a desired goal; and (f) find and use information that can help the consumer make wise selections (information to make comparisons of weight and unit price).

The following criteria were used as a guide for developing the instruments:

1. Test should be limited to a maximum of 15 minutes. It was felt that in a longer test the child was more likely to become bored and not be as careful in selections.

2. Test should reflect the real world of the child consumer, and not merely measure cognitive learning. It is apparent from the data regarding personal and family financial crises that cognitive abilities alone are not the sole criteria for consumer competencies. The literature clearly reflects that financial failures are prevalent among those who have received some classroom instruction in consumer education.[3,4]

3. Test should be relatively easy to administer to facilitate its use by different investigators.

4. Children should be tested individually and be in the home setting at the time of testing.

5. Test should measure the child's willingness and ability to: (a) determine and select a best buy; (b) work to increase purchasing power; (c) save money in order to increase purchase capacity; (d) select the package containing the greater quantity of product; and (e) compute and compare unit prices.

Description of Simulated Market

Two simulated markets were developed, one as a test and one as a retest, to measure the use of selected consumer skills at three levels of difficulty. Level one measured ability to get a best buy. Each child began with this level of the test. The child was given one piece of token money and an opportunity to earn a second piece of money. The child could make a purchase before he/she earned additional money and a purchase after earning the additional money; or the child could save the first money and add to the earned money before making a purchase. Only if the child saved money could he/she obtain the best buy. The best buy was identified for the purposes of this study as selecting one of the three available purchase selections that contained three items from the seven possible purchase selections.

Level two measured the child's ability to compare quantity in different sizes and shapes of packages. At level two the child was shown two packages containing the same product. One package contained many individually wrapped pieces and the other package contained one large size of the same product. The child was requested to tell the interviewer which package contained more of the product and how he/she determined the correct answer.

Level three measured ability to compare price and quantity. At this level of the test the child was shown three different sizes and shapes

of packages containing the same or the same type product. The child was requested to tell the interviewer which package would give the interviewer the most product for the money and how he/she was able to determine this.

Validation of Simulated Market

Validity, the most important characteristic of any measuring instrument, is the degree to which a test measures the variable or variables it was designed to measure. Validity was measured by relevancy and reliability.

Relevancy. Ordinarily to determine this type of validity a group of specialists examines the various items composing the test instrument to see if they meet the predetermined objectives. A panel of 16 home management faculty and graduate students at Purdue University was requested to review the instrument and to determine on a one to five point scale if the instrument measured the child's use of the selected consumer buying skills. A rating of one indicated complete agreement, and a rating of five indicated complete disagreement. On level one of the test, 63 per cent of the panel were in complete agreement that the simulated market measured the child's ability to (a) determine and select a best buy and (b) work and save in order to increase purchasing power. Eighty-one per cent of the experts were in complete agreement that level two measured the child's ability to determine which package had more of the given product. There was 75 per cent complete agreement among the panel that level three measured the child's ability to compute and compare unit prices.

Reliability. One method of determining reliability is equivalence. Two forms of a simulated market were used, one as a test and one as a retest, with approximate time lapse of 15 minutes between them. Therefore, the equivalent method was used to determine test reliability. Using the Spearman Correlation Coefficient, a correlation between levels achieved by participants on test and retest was significant at the .003 level. The coefficient of correlation was $r_s = .3838$, a somewhat lower correlation than desired.

In essence, the simulated market met the developmental criteria:

1. The test required a maximum of 12 minutes to administer to the child.

2. Parent participants were in agreement that the test reflected the real world of the child consumer. The child usually was familiar with all of the items in the simulated markets. He/she had definite likes and dislikes of the various items and generally told the research which of the items were present in the home at that time.

3. The test was relatively easy to administer. Four researchers had experience administering it without difficulty.

4. The test was suited to individual testing in the home setting. One or both parents were interested in it and in seeing how well their child played the game. Upon completion of the test, some parents used the occasion to teach the child how to compare alternatives.

5. The test measured the child's ability to use the selected consumer skills: (a) determining and selecting a best buy, (b) working to increase purchasing power, (c) saving to increase purchasing power, (d) choosing the food package that had the most weight, and (e) computing and comparing unit prices.

Sample

The sample consisted of 62 children. Thirty childen, age four, attended four randomly selected licensed daycare programs in Tippecanoe County, Indiana. Thirty-two children attended one of eight randomly selected fourth grade classrooms, four from the West Lafayette School Corporation and four from the Tippecanoe County School Corporation. One parent or adult respondent was interviewed for each child participant. The children were equally divided in regards to sex, 31 male and 31 females.

Administration of Instruments

Data were obtained by means of personal home interviews. Child responses were obtained by playing two buying games using the simulated markets. Parental responses were elicited by interviews with responses recorded on a schedule developed for that purpose. The interview procedure was the same for all subjects. The researcher played a buying game with the child, interviewed the parent, and, lastly, played a second buying game with the child. The time lapse between test (game one) and retest (game two) for the child was approximately 15 minutes.

Analysis of Data

The following procedures were used in analyzing data: frequency distributions, coefficient of reliability, and chi-square test of independence. The rejection level for null hypotheses was set at .05. The following null hypotheses were tested:

1. The child's performance on the test and retest will be independent of demographic characteristics: (a) age, (b) sex, and (c) occupation of the head of the household.

2. The child's performance on the test and retest will be independent of money experiences and responsibilities of the child as reported by an adult respondent.

3. The child's performance on the test and retest will be independent of the child's buying procedure: (a) decision time, (b) number of alternatives examined, (c) attempts to buy in excess of purchasing power, and (d) whether or not the child examined a best buy.

Findings

Demographic Characteristics

The null hypothesis that the child's performance on the test and retest would be independent of the child's age was rejected. Older children did perform better on both the test and retest than did younger children. In the test only 28 per cent of the fourth grade children failed to complete level one of the test, while 36.7 per cent of the four-year-old children failed to complete level one. In the retest the distinction was even greater: 81.2 per cent of the fourth graders and only 30 per cent of the four-year-old children completed level one.

Twenty-eight per cent of the fourth graders completed level two in the test and 40.6 per cent completed this level in the retest. No four-year-old completed level two in the test or the retest.

Level three of the test was completed by 9.4 per cent of the fourth graders. On the retest 15.6 per cent completed this level. No four-year-old was permitted to try this level of the test as none successfully completed level two.

The null hypothesis that the child's performance on the test and retest would be independent of the child's sex could not be rejected. There was, however, a tendency for males to surpass females on both the test and retest. This was an unexpected trend since traditionally shopping has been identified as a female function.[3] McNeal found that although males were permitted to shop independently earlier than females, by age nine the females were surpassing the males in interest and experience in shopping.[5] It is possible that in this sample the females are latent in achieving skills equivalent to their male peers rather than a role reversal.

The null hypothesis that the child's performance on the test and retest would be independent of the occupation of the head of the household was not rejected. There was no evidence in this study to indicate that children reared in homes where one or both parents were classified as professional had any edge on other children in the development of these selected consumer skills.

Money Experience and Home Responsibilities

The null hypothesis that the child's performance on the test and retest would be independent of money experiences and responsibilities

of the child as reported by the adult respondent was rejected. An unweighted index of opportunities provided the child by the family to use money and to share in family responsibilities was computed for each subject from responses given by the adult respondent. (See Table 1.) A score of one was assigned for a positive response to item 10 reported as frequently as twice weekly and for all other items reported as frequently as twice monthly. One point was given for each category in which the child participated in the decision process. For example, if the child helped make decisions regarding purchases of cereal and fruit one point was assigned for participation in food decisions. One point was assigned for each regular home responsibility of the subject. The total points for a child comprised his/her index of opportunities to use money and share in family responsibilities.

For the purpose of testing, these scores were grouped into three classifications: low scores (0 to 7), medium scores (8 to 11) and high scores (12 to 16). The null hypothesis was rejected at the .05 level of significance. The level achieved by children on the test and retest was dependent upon the opportunities provided the child by the family to use money and share in family responsibilities. The more opportunities available to the child to participate in the consumer decision making process and the more home responsibilities the child assumed, the higher score the subject earned on the test and retest. (See Table 2.) When each score item was separately examined, only one, shopping alone, was consistently within the rejection range. That is, children who were permitted to shop alone earned higher scores on the buying games than children who were not allowed this privilege.

Table 1

Unweighted Scoring Procedure for Index of Opportunities Provided the Child by the Family to Use Money and Share Family Responsibilities

Item	Response*	Points
1	Usually has money to spend	1
2	Regular amount of money	1
3	Allowance as source of money	1
4	Shops with parents	1
5	Shops alone	1
6	Shops with siblings or peers	1
7	Helps family make decisions about purchases	1
8	Kinds of decisions	(0 - 5)**
9	Pays for selected items	1
10	Decided clothing to wear, twice weekly	1
11	Family responsibilities	(0 - 5)**
12	Savings with goal in mind	1
13	Categories of expenditures	(0 - 3)**

*One point was given for each item reported as frequently as twice monthly, except for item 10.
**One point was given for each different category mentioned in the interview.

Table 2

Highest Level Achieved in Test and Retest by Opportunities Provided the Child by the Family to Use Money and Share Family Responsibilities

	Test						Retest					
	Low		Medium		High		Low		Medium		High	
Level	N	Cum %	N	Cum %	N	Cum %	N	Cum %	N	Cum %	N	Cum %
Three	(0)	0.0	(0)	0.0	(3)	20.0	(0)	0.0	(3)	12.5	(2)	13.3
Two	(1)	4.3	(3)	12.5	(2)	23.3	(0)	0.0	(2)	20.8	(6)	43.3
One	(12)	56.5	(13)	66.7	(8)	76.6	(9)	39.1	(7)	49.2	(6)	80.3
None	(10)	100.0	(8)	100.0	(2)	100.0	(14)	100.0	(12)	100.0	(1)	100.0
	23		24		15		23		24		15	

X^2 = 13.060, 6 d.f., > X^2 = 12.5916 at .05 level of significance for test.

X^2 = 21.7899, 6 d.f., > X^2 = 18.5476 at .005 level of signifficance for retest.

Buying Procedure

The null hypothesis that the child's performance on the test and retest would be independent of the child's buying procedures was tested. Four aspects of the child's buying behavior were tested: (a) number of alternatives examined; (b) time spent in examination of alternatives and decision making: (c) attempts to purchase an item in excess of the available purchasing power; and (d) examination or non-examination of best buy.

The null hypothesis was rejected at the .05 level for only one of the above aspects of buying behavior tested, namely, time spent in examination of alternatives and decision making. Children who required between 101 and 200 seconds to examine the alternatives and select a purchase achieved a higher level on both the test and retest than children who required more or less time. The level achieved on the test and retest was indicative of an optimal amount of search prior to decision making. Either too little or too much time spent in search reduced the chances that the child would obtain a best buy in level one of the test. These findings might be accounted for by the fact that children who tended to be more sophisticated in the search procedures used a method of examining alternatives that required less time than was spent by children who examined alternatives at random, that is, without a method.

Conclusions and Implications

A simulated market was developed that effectively measured the child's use of selected consumer skills: (a) ability to determine and select a best buy; (b) willingness to work and to save in order to increase purchasing power; (c) ability to determine which package has more; and (d) ability to compute and compare unit price. The effectiveness of the test is demonstrated by the correlation between the test and the retest. The simulated market is unique as it marks one of the first times a behavioral measurement of consumer competence has been

developed and shows that consumer skills related to buying behavior can be measured. It can serve as a valuable complement to cognitive testing and be an enjoyable experience for the child.

The research findings attest that consumer competence as measured by the buying behavior of children varies directly with their age, home responsibilities and money experiences, and somewhat indirectly with the time spent in decision making. Children who spent more than 200 seconds and children who spent less than 100 seconds in deciding upon an alternative(s) made poorer decisions than those who spent between 101 and 200 seconds.

The simulated market could possibly be used as a means of evaluation and consumer education in both home and school. With modifications or adaptations, the market game could be used to evaluate the child's competencies in a variety of other consumer skills, such as, value identification, quality perception, and evaluation of information.

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CONSUMER PROTECTION AGENCY: AN ADVOCATE VIEW

Ms. Esther Peterson*

There is an increasing interest in the consumer field as a profession. The time is coming when we will consider consumerism in the corporate picture as well as the legislature. We should encourage support for the Consumer Protection Agency. There is a need for accuracy in promoting public understanding of this agency. The purpose of the bill is to correct the imbalance that is in the marketplace today, but this purpose is lost in the deliberate misrepresentations or exaggerations given by some businesses.

There is an increasing interest in the consumer field as a profession. The time is coming when we will consider consumerism in the corporate picture as well as the legislative. But presently, my assignment is to assist on a limited basis to encourage support for the Consumer Protection Agency.

There is a need for accuracy in promoting public understanding of this agency. The purpose of the bill is to correct the imbalance that is in the marketplace today, but this purpose is lost in the deliberate misrepresentations or exaggerations given by some businesses. The testimony of the Chamber of Commerce shows its unwillingness to admit that consumers have the same rights in Congress as the large companies.

Consumerists are so out-numbered and so off-balance that there is no argument for the imbalance of this little agency. The Chamber will not accept the consumer's right to be heard by regulatory technicians, and this is causing it to deliberately misstate the case. The small consumer agency proposed by the President is an attempt to equalize what we have known for a long time about an imbalance in our system. In testimony before Congress, Chamber representatives misstate the purposes, content, and effects of the proposed legislation to create a voice for consumers.

Major modifications and safeguards in the bill have been accepted over a period of eight years. These modifications have helped the business cause. Despite this, the Chamber's opposition is still very evident.

Many business people support the bill. One indicated:

> We believe that having a separate consumer agency with the authority to represent consumers interest in proceedings of other agencies will improve the prospect of such interest being consistently and fully considered. This will give consumers additional grounds for confidence in the fairness and

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soundness of our government's procedures and decisions which affect the pocketbook of all of us.

Many other businessmen agreed. The point is that at least we recognize each other's rights. This is not an anti-business bill--it is an equalizing bill which is terribly important.

The purpose of the bill is to assure that the interests of consumers is adequately represented and protected within the federal government because such representation is essential to the fair and efficient function of a free marketplace. The goal is to protect and promote the interests of the people of the United States as consumers of available goods and services. This agency bill is the cornerstone of future bills to promote the goal.

NATIONAL TELECOMMUNICATION

PUBLIC POLICY ISSUES

Dr. Lee Richardson

The telecommunications industry is faced with radical change. Technology is raising the possibility that competition can enter the scene by passing the utility restrictions that have allowed telephone to function as a monopoly. Telephone is an industry with one company holding 80 per cent of the market so that change must be viewed mostly as impact on that one firm, AT&T. Issues include political and economic ones for which we are unprepared in large part. There is no precedent nor can we conduct experiments that are easily reversed.

Pressures that may dramatically change the telecommunications industry have been mounting recently. Certain elements of competition have been introduced into the telecommunication system by the Federal Communications Commission by regulation rather than new laws. Acting under authority of some thirty years plus, the FCC has been introducing a series of changes that it thinks is appropriate, basically adding limited amounts of competition into this industry where it did not exist. An event that occurred in 1974 but still is in litigation is the Department of Justice suit to eliminate the monopoly of the one company that dominates roughly 80 per cent of this industry, American Telephone and Telegraph. If successful, it will radically change the structure of the industry. Also a year ago the Consumer Communications Reform Act of 1976 was introduced by the telephone companies themselves. This Act would essentially restate the public utility concept, but also have some important effects upon the trends the FCC has been initiating and upon the Department of Justice effort to break up AT&T, both vertically and horizontally. While these events have suddenly come upon us forcing us to think about the issues, rapid technological advances promise great improvement in communications if technology is appropriately nurtured and directed through regulation and organization of the industry.

If it is a government-approved monopoly, one assumes that a public utility is to be directed by the government that licenses or franchises it. That is one element of government direction. The second element is that it is done in areas where the service or item provided is considered by society to be indispensable. All those who can reasonably be expected to pay for it and can reasonably pay for it are generally assured of some reasonable amount of that service. Those who want it can get it with certain modifications. This leaves the government in charge, with the basic problem of offsetting profits and directing the service that will be provided at what prices, on what burdens, to whom,

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for this kind of a service. And we have not always had this kind of a concept. This is a rather unique form of running institutions that provide products and services.

1907 was the beginning of the public service commission movement, and the intra-state telephone system. It was not until 1910 when the ICC was first given the job of regulating the industry, that federal regulation of inter-state telephone service really got underway. So at the national and state level a lot of things happened in the evolution of the industry without really any oversight of what we now all agree is basically a utility situation. Then in 1934 the Federal Communications Commission took over from ICC under a new law which is basically what we are living with today--federal regulation. In 1935, for example, the FCC praised the quality of the work done by AT&T--for its services, financial and accounting practices, in spite of the fact that the ICC really had done little regulating. The company had arrived somehow in 1935 with this interesting, mixed history of regulation. In an anti-business climate it was really a unique statement to make about an industry, particularly about a company that overwhelmingly dominated its industry.

Today, we have the national telecommunications network of phones connected to each other by local and long distance connections, switches and so forth. The Bell System alone, accounting for about 80 per cent of this, has 123 million phones connected to each other; the other 20 per cent of phones are represented by other companies. This network carried a half billion calls per day in 1976, including about 35 million long distance calls that obviously used many pieces of the network in being put together. AT&T itself is a holding company subject to the usual rules of holding companies. But though it is under the same basic laws, AT&T does not have the same kinds of problems as American Electric Power or Southern Company or Middle South Utilities.

There are some costs that people in rural areas and special situations incur, but universal service is generally present. Can you have that universal service (and perhaps subsidize it because society needs access to the telephone), and then bring in competition in other elements? This is one of the central issues the Consumers Communication Reform Act presents. Can you have a system that is partly regulated, including some subsidized services perhaps, and yet bring in competitive prices to meet the market prices at the same time in other parts of the system. If handled incorrectly, the regulated portion of the system may gain higher rates to subsidize the battles in the competitive sector. To avoid that, should we put rules on the regulated portion that prevents it from cutting prices unfairly? Should we have different rules for the free competitors that have no regulated utility duties to bind them? It sounds plausible and worth considering. What about the difference in the capital cost of the different parties in the competitive battle? AT&T has certain access to capital that is not available to other kinds of firms, large or small. Is that good or bad, or how much of a differential exists in the first place?

Another kind of political science problem is the question of size alone that many like to raise. The Bell system, with 900,000 employees in every community in the country, has clout in local, state, and national political decisions, regulatory and legislative. Its access to legal power enables it to tie up the processes of regulation and law. What about the size of the company versus separate states. Is it really South Central Bell versus Mississippi, or is it AT&T versus Mississippi? Is that balance there? Is that workable? And then what is the consumer's position, or the customer's ability to get into this mix. We need to establish a fundamental philosophy in anti-trust. Is there a size beyond which you should not go? If we think there is something wrong with that much size for political reasons, can we come up with ways of offsetting the impact of the size other than the most radical types of surgery such as divestiture or breaking up the biggest company, or as some suggest by nationalizing AT&T? It is a critical question. It may sound to an engineer or an economist like the wrong kind of question, but it is one that has to be faced.

The issue before us today is to be seen in the context of these points. Take a look at the Consumer Communications Reform Act and be thinking of the questions you want to ask and the impact of the various proposals you will hear. Does the CCRA move in the right direction? Is CCRA even a very central issue? Just how important is the CCRA in all this national public policy debate? What sort of process should we be using to decide these issues? Should we let Congress go ahead this summer and pass the law and set it in concrete, or is it a case for further study or input by various other interests? What sort of political process would you suggest? What additional questions on the pros and cons of CCRA need to be asked? I think we have two or three people here who can deliver some of the results we need.

CONSUMERS' CHOICE OR ECHO:
COMPETITION OR MONOPOLY IN TELECOMMUNICATIONS

Mr. Ian Volner*

The paper analyzes the debate which is now raging before the Congress, the Federal Communications Commission and the courts whether the consumer is best served by permitting the Bell system to maintain a monopoly over the provision of all telecommunications services in the United States. Briefly tracing the history of evolving policies which have permitted competition, particularly in the provision of terminal equipment, it points out that the introduction of competition is beneficial to consumers because it creates meaningful economic choices which enable the American public to secure telephone service and equipment suitable to its needs at a favorable price.

A central debate which is now raging before the Congress, the Federal Communications Commission and the courts is the future of telecommunications policy in this country. The issue is whether the consumer is best served by allowing telephone companies to artificially maintain a monopoly over the provision of all telecommunications service to the American public; and through its monopoly position to absolutely control the choice of products which are made available to and the prices which are paid by the consumer. The Bell system and its independent telephone company allies seek to implement this policy through legislation which has been introduced in the Congress which would have the effect of prohibiting competition in the telecommunications field. The bill is called the Consumer Communications Reform Act of 1977.

The alternative choice is to continue--and strengthen--the existing policy which permits entrepreneurs to compete with the telephone companies in the provision of certain services on the premise that competition enhances the choices available to consumers and operates to maintain lower prives. This choice is presented by the independent manufacturers, suppliers and distributors who furnish terminal equipment to telephone customers. These companies are frequently referred to as the "interconnect industry."

In order to understand the benefits which a competitive telecommunications policy has yielded, it is unavoidably necessary to review how we got here. Shortly after it was created in 1934, the FCC was required by Congress to submit a report on the state of the telecommunications industry which consisted, in those days, solely of the telephone and telegraph networks. The Commission found the existing network was already too well developed to permit the immediate introduction of unrestrained competition. However, it noted that competition would be beneficial if introduced in an orderly manner.

The first significant step toward the development of a national policy of telecommunications competition was in 1956. In that year, the

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Commission struck down a Bell system regulation which prohibited telephone consumers from attaching a plastic cup to the mouthpiece of their telephones. The Commission and the Courts both found that the Bell policy was an unwarranted interference with the telephone subscriber's right reasonably to use his telephone in ways which are privately beneficial without being publicly detrimental.

This principle, that telephone customers should not be denied the right to use their own telephone terminal equipment so long as it does not impair the network, was expanded and reaffirmed in a 1968 decision which goes by the name Carterphone. It is that decision which is primarily the foundation upon which the interconnect industry has come into being. Earlier, in 1959 the Commission introduced for the first time a policy of allowing large users to build and operate their own private microwave systems, using certain frequencies set aside by the FCC for this purpose. This determination is the basis for the specialized common carrier industry which provides private line communications for special purposes. Thus, our existing national policy of competitive telecommunications is confined to two discrete and clearly defined areas. It exists only with respect to terminal equipment--the "interconnect industry"--and with respect to private line special communications--the "SCC's".

The area in which existing policy permits competition is, in terms of the total telecommunications industry, quite small. In 1957, the total domestic telecommunications market amounted to $35.3 billion in revenues. The two areas in which competition exists--private line and telephone equipment--totalled approximately $4.2 billion, or slightly more than ten per cent of the entire market. Even if, by reason of superior products and lower prices, the interconnect and SCC companies were able to drive AT&T and its allies entirely out of the two areas in which competition is permitted, the telephone companies would nevertheless be left with an absolute monopoly in over 90 per cent of the total telecommunications field. Moreover, whatever may be thought of AT&T's products, its services and its practices, the telephone companies are and will remain a force in the terminal equipment and specialized carrier fields. In 1975 the combined revenues of the specialized common carriers and the private terminal equipment manufacturers amounted to one-half of one per cent of total telecommunications revenues. The interconnect industry represented in that year approximately five per cent of total terminal equipment sales. Unlike AT&T, we do not ask that the telephone companies be banished.

The very force and cost of the campaign which AT&T has mounted to abolish these young industries arouses suspicion. It is difficult to understand exactly what threat Bell perceives from the competition which it has experienced in these areas. The stated reason given by Bell in support of the Consumer Protection Act cannot be the real reason. Bell's campaign for the Consumer Protection Act rests upon two very simple propositions. It maintains that unless it is allowed to perpetuate and, indeed, extend its monopoly position, rates to consumers will go up and the quality of service will go down.

The claim is fallacious. The fact is, there is not proof that competition has increased telephone rates for consumers. On the contrary, the available evidence shows that competition in the terminal equipment field is beneficial to consumers because it creates meaningful economic choices, enabling a consumer to secure telephone service and equipment which suits that consumer's needs at a favorable price.

The FCC, which has historically shown great sympathy and sensitivity to the telephone company, can find no evidence that the existence of competition will increase the cost of service to the consumer. Nor has anyone else been able to find any extrinsic evidence to support Bell's contention that competition in the interconnect field means higher residential rates. It is true that residential rates have gone up substantially in some states in which Bell faces significant competition from the interconnect industry in the provision of terminal equipment. It is also true, however, that rates have gone up substantially in a number of states where Bell faces no competition whatsoever. Bell's residential rates have nothing to do with the existence or non-existence of competition.

At best, then, the claim that competition will result in increased costs to consumers is hollow. At worst, it is no more than an excuse--a cover-up--to justify anticompetitive policies, designed to perpetuate Bell's absolute control over the prices it charges and the service it provides to all consumers. To the extent that Bell faces competition from the specialized common carriers and the interconnect industry, the competition thus far has been most intense in the provision of services and products to business users. Bell claims that the potential loss of business in the business sector deprives it of its greatest "profit." It contends, in other words, that it has been overcharging the business user in order to keep rates for the residential consumer lower.

Bell's claim has a certain Robin Hood-like appeal to it: take from the rich in order to protect the poor. In fact, the situation appears to be just the other way around. Bell is playing Robin Hood in reverse.

The evidence shows that it is <u>overcharging</u> the residential consumer in order to <u>underprice</u> services it provides to business users. The motive behind this is equally obvious. By underpricing its competitors, including the interconnect industry, Bell can maintain its monopoly control over the entire telecommunications market. This enables Bell and its allies to continue to charge <u>all</u> consumers--business and residential--largely as it pleases. At the same time, it will enable Bell to eliminate the other benefits--such as increased employment and improved balance of trade--which competition offers.

If you still believe that the existence of competition in the terminal equipment field is calculated to produce increased consumer rates, ask yourself these types of questions:

*Why should a consumer be forced to pay $1,200 for a $24 telephone instrument over 20 years of paying his phone bill when he can purchase the unit outright at its true economic cost?

*Why should a consumer be forced to pay $60 or more in some places to move his telephone from one residence to another when, with proper connections, he can move the phone himself at no cost?

*Why should a consumer be denied a choice of type of telephone instrument he wants to have? Increasingly, there is a need for highly sophisticated communications facilities to deal with the very way in which we live; and increasingly, with the development of new concepts--such as electronic banking, electronic bill-paying, etc.--the need for this sophisticated and effective equipment spreads to all levels of our society. Bell claims that its competitors have not provided one single new or innovative service. The very existence of the young, but vibrant, interconnect industry belies this claim. Indeed, the existence of competition has forced Bell itself to respond more effectively to new and developing consumer needs. There is copious evidence that until the late 1960's the Bell system and its independent telephone company allies responded to consumer needs with caution or ineptitude. With the advent of competition, Bell has been forced to respond to the innovations wrought by its competitors by itself providing products which better serve needs at lower costs. The situation is the classic textbook example of the principle that monopoly promotes stagnation while competition releases creativity. The ultimate beneficiary has been the consumer.

There is one other aspect of this debate as to the merits of a competitive telecommunications policy which is or at least should be of consumer concern. It is the question of employment or unemployment. Over all, employment in the Bell system has declined by about 200,000 between 1970 and the end of 1976. This has led some critics of competitive policies to imagine that there is somehow a causal connection between competition and unemployment.

The facts contradict such a conclusion. Indeed, in its chief field of competition--with the interconnect industry--the Bell system has experienced a net increase in employment. Independent telephone companies have also added more workers in these categories. It may be that these gains are entirely independent of competition from interconnect firms. Indeed, the ups and downs in Bell's employment show very little pattern at all. Certainly, however, there is absolutely no merit to the claim that the existence of a competitive telecommunications policy has increased unemployment among those who would otherwise have been employed by the telephone companies.

The existing telecommunications policy of competition in limited areas has been good for the consumer because competition makes it possible for a consumer to obtain the services he wants at the price he can afford. It forces the telephone company to work harder, more imaginatively and more economically. Two decades ago we might have said "what is good for Bell is good for the country." But, I believe that if we have learned nothing else in the last 20 years of consumerism, we have learned that the opposite is true. This is the best reason of all for maintaining and strengthening a competitive telecommunications policy.

MEETING CONSUMERS' NEEDS IN TELECOMMUNICATIONS

Mr. Theodore L. Simis*

Far-reaching technological advances, new communications needs and possibilities and apparent inconsistencies in government decisions have resulted in some confusion and uncertainty in the telecommunications industry. The present situation cannot be allowed to continue; Congress must reexamine and redefine our national telecommunications policies. Goals and guidelines established by Congress--as with the telecommunications system itself--must be socially, structurally, economically and technically sound.

The issue in telecommunications that requires our attention and that of every American family is not the narrow and frequently misrepresented question of whether competition should be allowed in telecommunications. Competition already exists in this industry. The questions that remain with respect to competition have to do with defining those telecommunications areas where competition is in the best interests of the public and with establishing whatever regulations are required to protect these interests.

In so many areas--health services, transportation, consumer products--needs are constantly changing and becoming more sophisticated and challenging. This is especially so in communications. In this vital area of our society changes have been occurring rapidly and constantly since the Second World War and there are no signs that they are about to cease or even slow down.

It is an undisputed fact that the United States has the very finest telecommunications system in the world today. To an important degree, this achievement has resulted from the establishment of clearly defined national telecommunications objectives and policies. But that is no longer entirely the case. Far-reaching technological advances, new communications needs and possibilities and apparent inconsistencies in government decisions over the past several years have combined to place the telecommunications industry in a state of some confusion and uncertainty.

At the very outset then, we must ask ourselves what communications capabilities our people will require a decade from now and in the years thereafter. The present confusion must not continue. We--that is, both the telephone industry and consumers--need a reexamination and redefinition of our national telecommunications policies by our elected representatives--the Congress of the United States. Congress has both the authority and the responsibility to set forth goals and guidelines in this area, as in others, and there can be no hope that your sophisticated future communications needs will be met unless the Congress exercises its reponsibility in this regard.

*Assistant Vice President-Staff, AT&T

The goals and guidelines established by Congress--as indeed, the telecommunications system built thereupon--must be socially, structurally, economically and technically sound.

Social

From a social viewpoint, our national telecommunications policies must derive from and adequately reflect the needs of the American people. Some 43 years ago, in the Communications Act of 1934, Congress set forth as our national telecommunications goal

> ...to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide and worldwide wire and radio communications service with adequate facilities at reasonable charges...

How well that lofty and challenging goal responded to the country's needs can be gauged by the fact that in large degree it has been accomplished and by the high quality of our telecommunications service today.

At the present time, as subcommittees in both the Senate and the House of Representatives begin efforts to forge a new statement of national telecommunications objectives, residential customers and consumer groups like your own, along with various other interest groups, should make their viewpoints known. Congress needs the broadest possible representation on the issues and the needs that must be met.

Your contribution is vital and I have been encouraged by the ongoing dialogues between business and industry--including the telephone industry--consumers both individually and as represented by organizations and a wide spectrum of other informed persons and groups. Such dialogue is necessary to assure full exploration of the social aspects of communications as well as timely and appropriate responses to society's needs.

Structural

Structurally, it is important to be cognizant of the extremely intricate and delicate nature of the telecommunications network, as well as the managerial skills and accountabilities necessary for it to function and expand. The telecommunications system is the neural network of this nation, serving--much like the nervous system in your own body--to receive and transmit messages from both within and outside the nation so that both individuals and the nation can properly function.

Underlying every form of communications between people and their information and process mechanisms is a vast and complicated network (and I am not here referring only to the telephone network) made up of switches; computers; wire, radio and lightwave paths; stores of information; and people. This unique system that we as a nation possess in both a physical and informational sense, can be utilized to perform virtually any conceivable set of activities having to do with communicating. It extends to any human activity involving the use of information--for example, the control of processing or manufacturing, electronic funds

transfer, law and library retrieval systems, educational programs, defense systems, and various other needs of this nation.

It would be ironic if in an era when we are coming to recognize the need for large-scale systematic planning in some of our society's basic undertakings--transportation, the supply of energy, the delivery of health services--we should at the same time apply to the very industry that has served as the model of such planning, ground rules more appropriate to a past age. The core of the information infrastructure of this nation is a basic telecommunications network, designed and managed as one entity. It will serve to link terminals and subsystems of a variety currently beyond imagination and should be circumscribed only by the requirement that there be no undue risk to the operation of the infrastructure network as a whole.

This concept for tomorrow will require clearer and more precise definitions of the natural monopoly and competitive areas of telecommunications. New modes of regulation may be needed. Improved standards of interconnection and privacy will be required. This will not be altogether new for the telephone industry. Long ago we recognized and accepted the public interest and public service objectives as the very purpose of our industry.

Telephone customers, for their part, have long been secure in knowing that accountability for their telephone service rested squarely with the phone company. If parts of the system are now to be removed from the phone company's responsibility, accountability for the service those parts represent will necessarily pass to the customer--with all of the attendant consequences in service costs that entails. Unified management of the network and accountability for it has the further advantage of facilitating optimum long-range planning and technological innovation. The very concept of a network implies an integral whole, a unified system. In such a concept, duplications and gaps are equally unacceptable. A nerve system that does not reach to all parts of the body or which favors some parts over others is no longer performing its proper function.

Terminal equipment manufacturers and suppliers say that since their entry into telecommunications, consumers have a far wider choice of telephone equipment and that telephone companies have improved their service. To some degree, this is undoubtedly true. We must be careful, however, not to confuse product differentiation with basic system innnovation--the substantive technological changes represented, for example, by the transistor, microwave and satellite transmission, electronic switching systems and fiber optics--that keep our telecommunications network in step with society's needs. I think of this network as a living thing, constantly being revitalized and updated to make it a more suitable instrument for people to communicate with and interact with one another. This basic systemic innovation, this continual revitalization process, is made easier if the basic network is maintained and operated as a unified whole.

Economic

You have a particular interest in how telephone services are to be priced. Underlying traditional telephone price structures has been what we call cost and rate averaging. Charges for basic exchange service are the same, for example, for two customers in a given community even though one lives in an apartment building near the telephone office and the other lives in a private home on the outskirts of town. A long-distance call between two large cities costs the same as a call between two rural communities, provided the distance is the same and the calls are alike in time, duration, etc. Traditional pricing structures have served home telephone users well, without them we would not have the telecommunications system we now enjoy. They would serve as admirably in helping us meet the nation's future communications needs.

Competitive pricing standards may have a place in certain areas of telecommunications, but let us not imagine that those standards and the public interest are one. Under competition, prices for any service are necessarily driven toward their costs--a necessity in direct contrast to cost and rate averaging--and a far cry from the established principle that affordable service be furnished to every household. Our endeavor has been to provide quality service at reasonable charges to all the people of this nation.

If we are to select a new set of pricing standards for telecommunications services to replace those that have served us in the past, let us at least be aware beforehand of the implications of such a choice. Scarcity of some materials, rising energy and labor costs and inflation generally, along with other factors, have forced us to raise telephone rates across the country in recent years and to realign rate structures for different services. Customers, faced with higher costs in so many other areas at the same time, have understandably complained of higher telephone bills. Any of you who may be looking to competition to ease the burden on residential telephone customers, should know that, on the contrary, competition will likely bring a restructuring of rates and such a restructuring could easily result in even higher telephone bills for some--in particular for residential customers.

Technical

Lastly, unless our telecommunications system is technically sound, we have no system at all. The core telecommunications network, once again, is a unified, finely tuned and delicate instrument and must be carefully managed as such. It must be protected from harm by inferior, malfunctioning or improperly connected equipment. The parts that go into the system must be manufactured according to prescribed specifications, installed and maintained properly, and repaired quickly if they fail. The network requires large-scale, long-range planning that cannot be done haphazardly and piecemeal.

Having set forth these fundamental considerations, let me state some of my own convictions:

--Congress, as your voice, is the appropriate body to set national telecommunications policy.

--The basic affordability of home telephone service should continue to be a prime goal. If that is the case, a pricing structure should be established where revenues from other services will continue to help keep basic home rates low.

--Where competition is to be the rule it should be real competition, with no protective umbrellas for certain suppliers.

--Regulated monopoly should prevail in those areas where economies, efficiencies and the public interest make it preferable to competition.

--Wide consumer choices in products and services should be available. At the same time, we must maintain network integrity and undiminished service quality.

--There should be the widest exploitation of new technologies, for the benefit of all users.

In conclusion, I would like to endorse the commitment made by AT&T's Chairman, Mr. John DeButts, at the national meeting of the Conference of Consumer Organizations last December:

> ...These, then, are our accountabilities--to serve you well, to strive always to serve you better, to treat you as an individual and not a number, to charge you fairly, to listen to what you say, to heed it and, finally, to speak out whenever policies are proposed that put our abilities to serve you at risk. Perhaps at times we'll fall short of these accountabilities. Nonetheless, these are the standards that we set for ourselves, the standards by which we are ready to be judged.

CONSUMER REPRESENTATION IN SETTING SAFETY STANDARDS

Mr. Victor P. Petralia*

A main responsibility of the Consumer Product Safety Commission is the development of safety standards for products that have been shown to present serious risk of injury to the public. Between innovative legislation by Congress and enlightened policy of the Commissioners, public involvement in standard setting is a rule in CPSC. Fully one-third of any group selected to develop a Consumer Product Safety Standard are consumers. They participate in all phases of development contributing either their scientific expertise or their concerns as ultimate users of the product. CPSC urges all interested persons to get involved in the process.

In the Area of Standards Development, the Consumer Product Safety Act specifically says two things:

> 1. The purpose of this act is to develop uniform safety standards for consumer products...(Section 2(b)(3))
>
> 2. The Commission shall prescribe regulations ... to include requirements ... for notice and opportunity by interested persons (including representatives of consumers and consumer organizations) to participate in the development of such standards (Section 7(d)(3)(B).)

Since creation in 1973, the Consumer Product Commission has given highest priority to its policy of consumer participation in standard development and to its general policy of openness to the public.

The Commission has established and consults with its product safety advisory counsel regarding safety standards. By holding consumer feedback sessions around the country, by widely distributing our public calendar of Commission activities, and by creating the toll-free hotline the Commission has aimed to reach out to the consumer as well as provide access for reaching in by consumers to the activities by CPSC. By liberally interpreting the Freedom of Information Act, and assuring that nearly all Commission meetings are open to anyone willing to attend, the Commission has conducted the public business in the public eye.

So that the consumer's position is heard directly by the Commissioners, an organization known as the Office if Public Participation has been proposed. When created, the office's primary function will be to provide

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an organizational mechanism to fund certain public participants in Commission proceedings.

The Commission wishes to develop Federal Safety Regulations in a public forum with both consumer and industry involvement. The law prescribes that CPSC take certain steps when promulgating standards. Among them are: giving public notice, describing of the risks to be addressed, exploring existing standards in effect, and inviting qualified interested parties to develop the standard in question. The offerors can be and have been consumer groups, private laboratories, universities, government agencies, trade associations, and others.

As noted in my opening comments, the law specifically requires the opportunity for consumer participation no matter who develops the standard. The CPSC has met this spirit as well as the letter of this directive. Whenever an offer to develop a standard is extended by CPSC, strict guidelines regarding consumer involvement are stipulated.

In the Federal Register announcement (March 31, 1977) the Commission specifically states:

> It is the Commission's desire that consumers be afforded an opportunity to fully participate in the development of standards. The Commission believes that it is essential that offerors include as members of the commitee that actually drafts a recommended standard both use-oriented consumers and consumers who are technical experts in this subject matter of the standard under development.....
>
> The Commission believes that at least 1/3 of the persons directly involved in the development of the standard should be consumer.

When the proposals from the offerors are received, the section dealing with consumer involvement is critical in final selection.

The offeror process has been extended eight times: for architectural glass, matchbooks, swimming pool slides, lawnmowers, color tv receivers, public playground equipment, Christmas tree lights, and aluminum wire.

Essentially there have been three types of participation by consumers at two levels of involvement. Technical consumers are experts in the subject matter of the standard under development who have no business interest in the standard. For example, a professor of electrical engineering might be a technical consumer for the minature Christmas tree light standard. A use-oriented consumer would be a person to whom the consumer product would be sold. Anyone who has bought and used Christmas tree lights would be eligible to participate. For lack of a better term, both the technical and use-oriented people might serve as "administrative" consumers in the standard development process. The volumes of information and comments that are collected during the development process must be analyzed and tabulated. The consumer representatives contribute in this area as well.

There are two levels of involvement by consumers in the standard development process. There are consumers who attend meetings, express their thoughts and recommendations, and discuss the issues at hand. In addition, the offeror process allows for consumers to correspond with the committee developing the standard by letter. In the past, consumers who participated by attending meetings, would count on contributing approximately two days per month for approximately one year attending the meeting plus additional time at their homes studying the issues. Consumer representatives who have participated have thought the experience worthwhile. They feel that they have contributed to the standard under development. In the beginning, many were skeptical about their reception; however, they later found themselves well received and listened to by the offeror. As in all committee work, some have felt frustration in getting the job done. Others have felt overwhelmed by the technical issues presented by the offeror and would have preferred more of their own technical support.

This system is an elaborate and involved one. It has been criticized by some as not being time-efficient. Many people in CPSC as well as outside the organization have made recommendations to modify the process to make it run smoother.

There are several ways to be considered for participation. A person can apply directly to the Secretary of the Consumer Product Safety Commission to be placed on our computerized list of interested parties. Since the Commission announces the organization selected to develop a standard publicly and since the Commission requires that the organization selected publish its proceedings far and wide, an interested consumer can express his interest for participation directly to the offeror.

DEPARTMENT OF COMMERCE AND CONSUMER PROTECTION

Mr. Gene Cope*

There are a number of agencies within the Department of Commerce whose functions results in very direct and significant consumer impact. They include: National Bureau of Standards, National Marine Fisheries Service, National Fire Prevention and Control Administration and Domestic and International Business Administration. The Consumer Affairs Division role as "in-house consumer advocate" is to bring the views of the consumer into balance with those of business in policy and program decisions of the Department of Commerce.

Concern with consumer affairs is nothing new for the Department of Commerce. There are a number of agencies within Commerce whose functions result in very direct and significant consumer impact. They include:

1. National Bureau of Standards--which is active in the areas of weights and measures, product labeling, energy efficiency, and standardization;

2. National Marine Fisheries Service--which conducts on-site voluntary seafood inspection programs;

3. National Fire Prevention and Control Administration--which reviews the causes of fire, fire codes and equipment, and home safety measures, and makes recommendations to fire departments throughout the country; and

4. Domestic and International Business Administration--which is involved in trade negotiations, short supply export controls, and other commercial practices, and which administers the Department's field office program. The Office of the Ombudsman in the Domestic and International Business Administration provides information and assistance to both business and consumers.

In addition to these on-going programs, there are a number of new activities at Commerce which focus on the consumer. For example, a Consumer Affairs Council has been established to advise the Secretary on consumer matters. The Council membership consists of heads of all the units within the Department which have consumer-related functions. It is chaired by the Assistant Secretary for Administration. The Council meets monthly to analyze policies and programs throughout the Department, and to make recommendations to policy officials which will best serve the consumer's interest. It frequently confers with consumer leaders to keep abreast of their concerns and obtain their input on issues.

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Second, the Secretary has directed the consumer representatives be added to the Department's advisory committees wherever possible, to enable them to have meaningful input at the early stages of policy development. These committees cover such diverse subjects as coastal zone management, energy, East-West trade, textile exports and imports, patents and trademarks, and economic development. Through contacts with consumer leaders and organizations throughout the country, nearly 40 consumer representatives for positions on various committees have been recommended. The third major element of the Commerce consumer program is the new Consumer Affairs Division created in June of 1976 in the Office of the Ombudsman, which, was already the Department's complaint handler and trouble-shooter for both business and consumers. One of the major activities is answering consumer inquiries and complaints, presently at the rate of about 2,500 per year. In many cases, we assist the consumer by conferring with or making them aware of their local resources for help--local government agencies, small claims courts, consumer action panels, etc. But in other cases, without enforcement authority, we have been quite successful in resolving complaints for which the consumer's own efforts or those of a local agency have failed.

To address this problem of unresponsiveness, the Office of the Ombudsman is sponsoring a series of Business-Consumer Relations Seminars throughout the country. The purpose of the seminars is to make businessmen more aware of current consumer concerns, and to encourage voluntary responsiveness to the needs of the consumer. Not only will this voluntary approach better serve the consumer directly, but it could contribute indirectly to reducing the amount of consumer legislation being passed.

Finally, the Consumer Affairs Division is actively involved in efforts to communicate with consumers throughout the country. We have an extensive mailing list of consumer agencies and organizations to whom we send our publications, and from whom we request input to various issues within the Department. We arrange meetings for consumer leaders with Commerce policy officials, and we are currently developing a plan for conducting consumer forums on major consumer-related issues in which the Department is involved.

In short, the Consumer Affairs Division role as "in-house consumer advocate" is to bring the views of the consumer into balance with those of business in policy and program decisions of the Department of Commerce. Further, the success of any business enterprise depends upon consumer satisfaction. Therefore, the Department's concern for consumer representation is an objective which ultimately is in the best interest not only of consumers, but of the business community as well.

CONSUMER REPRESENTATIVE IN THE FEDERAL RESERVE

Ms. Anne Geary*

The Federal Reserve Board is responsible for many consumer credit laws and regulations that directly affect consumers. Several of the laws and regulations are reviewed. A survey is currently being completed that will assist the Board in determining public awareness and attitudes toward consumer credit and consumer credit legislation.

The Federal Reserve Board's primary functions are managing the nation's money supply and supervising the safety and soundness of 1100 State chartered member banks. Although both these activities affect all consumers in the macroeconomics sense, the ordinary consumer probably has little interest in the lofty matters of monetary policy and international balance of payments. These matters do not have an immediate, day-to-day, or personal impact upon consumers. But the Fed is involved in consumer matters. The Division of Consumer Affairs is three years old with 50 employees.

The Federal Reserve has responsibility for several consumer protection laws. Four of these mandates are the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, Truth-In-Lending, and the Fair Credit Billing Act.

The HMDA is less than a year old--it went into effect in June, 1976. Consumer groups in urban areas concerned about the decay of inner city neighborhoods and the difficulty of obtaining loans on inner city property brought their complaints to the attention of Congress. The Congress responded with HMDA, which requires that once a year, depository institutions over a certain size prepare a statement showing by census tracts the location of property on which they have made mortgage loans. Depositors must be informed of the availability of the disclosure statements and the statements must be offered to anyone who requests thems. The purpose of the Act is to enable consumer groups and local officials to see where the depository institutions are lending, and to determine whether the institutions are serving the community's housing needs.

The Equal Credit Opportunity Act is another new law. It forbids discrimination in credit on the basis of race, color, religion, national origin, sex, marital status, age, receipt of public assistance benefits and exercise of rights under the Consumer Credit Protection Act. The implementing regulations outlaw certain discriminatory practices that were first identified by the National Commission on Consumer Finance. The Regulation

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prohibits creditors from discounting a wife's income and from asking an applicant for credit questions about his or her birth control practices or child-bearing capabilities. Creditors also are required to tell a consumer whether or not his application has been approved, and if an application is denied, to inform the applicant of the reason(s) for denial, either automatically or upon request. Another provision corrects the practice of reporting credit experience only in the husband's name, which had the result of creating a credit history only for the husband. The Board's regulations will now result in the creation of credit histories for married women. When those women are widowed or get divorced, or decide they want credit in their own names, they will not be in an adverse position.

Another law the Fed administers is Truth-in-Lending. This law, which was passed in 1968, is designed to promote the informed use of credit by enabling consumers to compare credit terms. The law requires creditors to disclose clearly, conspicuously, and in a meaningful sequence the sum of all charges the consumer must pay directly or indirectly for credit. Finally, the Fair Credit Billing Act provisions require creditors to tell consumers how to correct billing errors in their bills, and, of course, to correct the errors.

Thus, the Federal Reserve Board has responsibility for some important laws in the field of consumer credit. The Board wrote the implementing regulations as Congress directed, and the Fed interprets the laws. Creditors certainly know about these laws--the staff answers hundreds of letters each year from creditors who want to know what the law requires and whether a proposed course of action is permissible. With increasing frequency, we are wondering what the American consumer knows about consumer credit in general and these laws in particular.

Creditors mutter that laws such as Truth-in-Lending are a national disgrace, and that they should be drastically simplified or even repealed because they are complex, difficult to comply with, and costly. Creditors note that consumers do not shop for credit in 1977 any more than they did in 1967, and the first thing a consumer does with a Truth-in-Lending disclosure form is to throw it away. Is Truth-in-Lending a white elephant? Maybe the problem rests with lack of consumer awareness of the law. If that is so, what is needed is improved educational effort relating to consumer credit.

Six months ago at the direction of Congress, the Board established a Consumer Advisory Council. The Council is chaired by former Representative Leonor Sullivan, and composed of representatives of business and of the consumer interest. Education was the principal topic at the Council's last meeting. Several Council members had conducted informal, unscientific surveys in the areas to determine what primary and secondary students were being taught about consumer credit. Some school districts apparently offered no instruction in consumer credit. Some touched on the subject in home economics courses, where girls made up most of the enrollment. Of the schools that offered instruction in consumer credit, only a few required students to take the course.

The question the Board is asking itself is "What should the Board's role be?" As a first step, the Board has asked the University of Michigan's Consumer Research Center to conduct a survey on public awareness of credit laws and attitudes toward credit in general. The survey should give an idea of how serious the educational gap is, but it leaves unanswered the question of what the Board can and should do to close the gap. This is a concern that is well worth reviewing for all interested educators.

CONSUMER SATISFACTION WITH UTILITIES

Dr. William O. Bearden, Dr. Richard M. Durand,
Dr. J. Barry Mason, and Dr. Jesse E. Teel*

Demographic, psychographic, and media usage differences between complainants and noncomplainants regarding electric utility service are examined. Individuals most likely to complain were profiled as being younger, more educated, heavier consumers of print media, and generally more socially conscious. Electric utility management needs to prepare for an increasing number of complaints as individuals become more educated and incomes rise. Concern for the less educated and informed is also raised as these individuals may feel unable and powerless to affect utility policy.

Services now contribute approximately 50 per cent of the gross national product of the United States. This percentage will likely increase because of rising discretionary incomes, increasing participation of women in the labor force, and continued demand for activities oriented to life styles which require services such as education, personal care, and recreation. Yet, consumer satisfaction with services has received little research attention from academicians who have focused virtually all of their efforts on consumer concerns with tangible goods. However, increasing demand for services, e.g., medical services, legal services, education, and recreation, underscore the importance of service marketing. Furthermore, some services, including natural gas and electric utilities, are granted virtual monopolies by state and federal governments. Thus, it is imperative that research be conducted on both the quality of services and attendant consumer satisfaction with these services. This research will aid consumer affairs practitioners and academicians in providing input to regulatory policy-making bodies which will hopefully result in decisions more beneficial to both service agencies and consumers.

Although little information concerning consumer satisfaction/dissatisfaction with service industries exists, research has been done that deals directly with consumer complaints regarding durable products. A review of this research provides useful insight into the general dimensions of consumer dissatisfaction.

Various estimates of consumer dissatisfaction with durables indicate that approximately 50 per cent of consumers at any time are likely to be sufficiently dissatisfied to make some type of complaint.[1,2] Other studies suggest that this number may be even higher.[3] However, complaints deal with both products and services. Specific complaints frequently mention problems with repair, product safety features, home improvement, insurance and energy consumption.[4,5,6,7]

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Ralph Nader's Center for the Study of Responsive Law recently found that only 25 per cent of the problems people have with products are resolved to their satisfaction.[8] Anticipation of their failure to obtain redress apparently causes consumers to express their dissatisfaction to other consumers. Research has shown that people who get upset in the marketplace are most likely to complain personally to another consumer or else do nothing. If action is taken, it will most likely consist of a personal complaint to a store employee, e.g., manager, salesperson, or clerk.[9]

The literature to date provides other descriptive profiles of the dissatisfied consumer. For example:

> ....Evidence indicates it is the younger, more mobile, more educated consumer with a higher expectation, who is predominantly the "discontended consumer."[10]
>
> ....The average consumer complainer is a middle-age, well-educated, affluent, managerial-professional man or woman.[11]
>
> ....The demographic profile of discontented consumers indicates that the individuals most likely to operate effectively in the marketplace are those least content with its operation.[12]

Generally, research has profiled the chronic complainer as a person who contacts consumer protection agencies, newspapers, radio hotlines, and/or the FTC. The occasional or infrequent complainer is characterized as most likely to contact the retailer, the manufacturer, or the Better Business Bureau.[13]

Purpose of Research

The objectives of this research were to both determine the nature of consumer complaints about electric utilities and develop profiles of dissatisfied utility consumers. The expression of dissatisfaction with utilities is unique in that consumers are likely to experience more difficulty registering complaints about electric utilities than about tangible products. Consumers have less face-to-face contact with utility personnel than with retail store employees and may have to engage in overt search to register a complaint with a utility representative.

Methodology

The data were collected by means of structured personal interviews with 754 randomly selected respondents from a large southwestern community. Respondents provided information on the nature of their complaints about electric utilities in addition to individual demographic, psychographic, and media usage characteristics. The distribution of the sample's demographic characteristics indicated that the data were representative of the southwestern United States.

Twenty-nine statements on activities, interests and opinions (AIO's) were employed to measure respondents' psychographic (life style) characteristics. A principal axis factor analysis of these twenty-nine statements followed by a varimax rotation produced five general psychographic factors that explained 87 per cent of the variance in respondents' measured activities, interests and opinions. Based upon their component AIO variables, these factors were interpreted as representing groups of individuals who could be termed old-fashioned, outgoing/individualistic, service-quality conscious, fashion conscious and other-directed.

Media consumption information was obtained from respondents for local television stations, local radio stations, three weekly news magazines, and three daily newspapers. Radio and TV usage was defined as the total number of occasions that a respondent was exposed to a radio or TV station for at least fifteen minutes during the previous five day period, newspaper usage as the number of daily newspapers that each respondent read for at least 10 minutes over a five-day period, news magazine usage as the number of weekly magazines that each respondent read for at least 10 minutes per week over a four-week period.

Complaints were identified from their response to the following question:

> Have you written, called, or spoken to a representative or employee of _____ company over the last six months...

Those consumers providing positive responses were asked to describe the nature of their specific complaints. Complainants were then compared with noncomplainants along demographic, psychographic, and media dimensions by t-tests of mean differences and chi-square tests of categorical groupings.

Results and Discussion

Eighty respondents were identified as complainants regarding electric utility services. The nature of specific individual complaints were reflected in the following percentages: (1) 37.7 per cent - excessively high monthly bill; (2) 12.5 per cent - problem with bill; (3) 3.8 per cent - overdue bill; (4) 6.3 per cent - electric service interrupted; (5) 6.3 per cent - requests for restoration of service; and (6) 33.4 per cent - other varying or forgotten reasons.

With respect to demographic variables, complainants tended to be (1) younger, (2) better-educated, (3) wealthier, (4) responsible for more pre-school children, and (5) more likely to own their own home than non-complainants. Further, complainants exhibited more fashion consciousness than noncomplainants.

The differences in media exposure patterns of complainants and non-complainants indicate that complainants read more news magazines and listen to more radio than noncomplainants. Complainants tended to watch television less and read the newspaper more than noncomplainants

although these two differences were not statistically significant. These findings support the accepted demographic and psychographic profile of complainants as individuals who are heavier consumers of print media and thus better informed and possibly more articulate than non-complainants.

Conclusions and Implications

These results support earlier findings in that individuals found to complain regarding electric utility service appear to be similar to those individuals who have been shown to complain regarding tangible consumer products in other studies.[14,15,16] While the electric utility complainant segment within any area may represent a relatively small percentage of all utility customers, a vocal minority this size easily could impact marketing utility policies. The unique profile of these individuals also suggests other definite implications for electric utility managers in their dealings with the consuming public.

As incomes rise and individuals become more educated and informed, management of electric utility companies can expect substantial increases in the number and frequency of individual complaints. Also, as incomes rise, individual expectations for a higher standard of living increase. However, rising costs and demands on electric utility facilities coupled with environmental and shortage concerns will restrict any improvements in service, which will certainly affect consumer feelings of satisfaction.

The relative size of the specific complainant consumer segment found in this study is probably even substantially underestimated. First, the noncomplaints in this analysis included those individuals who provided nonsubstantive respondents (e.g., no opinion or "don't know"). Second, those most affected by poor service and rising costs are the less informed, less educated, and lower income individuals. However, these are the consumers who are also most likely to feel overshadowed, and hence not complain, in their dealings with electric utility companies. Management needs to implement policies which would insure the availability of complaint procedures to the more disadvantaged.

Finally, most complaints isolated in this study dealt with some aspect of billing procedures. Further efforts need to be directed toward assessing if these problems are valid or whether the concerns are characteristic of the individuals involved. Future research needs also to examine varying communication strategies that might be useful in answering consumer complaints and in disseminating electric utility policy and usage information.

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14. J. T. Liefield, F. H. C. Edgecombe, and Linda Wolfe, op. cit., pp. 73-80.

15. William Lundstrom and Roger Kerin, op. cit., p. 312.

16. John A. Miller, op. cit., pp. 65-84.

STATE INSURANCE COMMISSIONERS AND THE CONSUMER PROTECTION FUNCTION

Dr. August Ralston*

The paper is based on the premise that there is an ill-defined regulator-insurance consumer relationship which hinders effective regulation by the state insurance departments. The purpose of the paper is to: (1) examine the current status of direct insurance consumer protection (DICP), (2) evaluate insurance consumer awareness of services provided by a state insurance department, and (3) present arguments for expansion of the DICP function.

Introduction

William Jennings Bryan offered his views on many topics. Insurance regulation was not an exception. In a speech, he observed:

> You will find that in every subject there is a fundamental proposition..., you will find that there is one fundamental principle that underlies irrigation; it is that water runs down hill. The man who tries to establish an irrigation plant without knowing that is going to have difficulty.[1]

Relating this observation to insurance regulation, he stated:

> There is a principle in insurance that is just as fundamental as that experienced in irrigation, and that is that security is the one thing that is important above all other... All the efforts of the State are directed toward the security of the insured... Gambling is the antithesis of security, and the efforts of legislation and administration is to take insurance out of the gambling class and put it into the certainty class. That is all there is to it.[2]

The reasons for and approaches to insurance regulation may be more numerous and complex than suggested by Mr. Bryan. However, he accurately identified the emphasis that has evolved and dominates insurance regulation. Through capital, reserve, surplus, and investment requirements enforced by disclosure and examination, the states attempt to create a reasonable certainty that insurers will be able to meet their financial obligations to policyholders and third party claimants. In addition to this emphasis on solvency regulation, the state insurance departments concentrate on premium rate regulation, insurance agent licensing, and policy form approval.

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The above elements combine to give the insurance regulatory structure a basic characteristic. It is indirect with respect to the insurance consumer. The basic components do not require the regulator to communicate with consumers through either direct contact or the providing of useful information. In the existing structure, there are strong, well-defined regulator-insurer and regulator-agent relationships, but there is a weak, ill-defined regulator-insurance consumer relationship.

Activities which require communication between insurance regulators and consumers may be defined as direct insurance consumer protection (DICP). DICP as defined here does not include all policyholder treatment aspects of regulation. It is limited to those activities which bring the regulator and the consumer into contact.

DICP is not nil. For example, many state insurance departments offer consumer services such as procedures for policyholders and claimants to register complaints and the distribution of information booklets. However, insurance commissioners as a group have placed a low priority on DICP. As a result, DICP is fragmented and of limited scope, virtually isolating the insurance consumer from the regulator.

Purpose

The purpose of this paper is to: (1) examine the current status of DICP and the focus of insurance regulation in the consumerism movement, (2) evaluate insurance consumer awareness of services provided by a state insurance department, and (3) present arguments for expansion of the DICP function. There is no intent to suggest that DICP is more important than or should be practiced to the exclusion of indirect regulation. The supposition is that insurance regulation is not whole with the benefits derived from effective indirect regulation. Further, the emphasis on indirect regulation has hindered state insurance departments in realizing their potential as complete insurance consumer protection agencies which are visible to the consumer.

Status of Insurance Consumer Protection

There is evidence that insurance regulators are becoming more concerned with the consumerism aspects of insurance regulation. This trend is well described by the following quote:

> Heretofore, ... , direct contact between commissioners and the consumer was relatively infrequent and then usually only on an individual basis, such as when a policyholder made a complaint. When a regulator spoke out on a subject of importance, he generally did so before a trade association, in the trade press, or at a legislative hearing. Lately, however, more and more commissioners have been trying to deal more directly and formally with the individual consumer and with "organized consumers."[3]

The DICP Function

The status of the DICP function within the consumerism movement was summarized in a recent study.[4] The insurance commissioners were surveyed to determine the types of consumer services offered by their departments. The responses are presented in Table 1.

Table 1

Consumer Service Category	Number of States
Complaint service only	19
Informational booklets	10
Toll-free hotline	3
Newspaper columns	1
Booklets and hotline	3
Hotline and newspaper columns	1
Total	37

The basic component of DICP is the complaints service. All insurance departments are open to hearing complaints from insurance consumers. The data in Table 1 suggest a somewhat limited scope for DICP beyond the handling of complaints. Over one-half of the 37 respondents confine their involvement to the complaints service. The providing of informational booklets is the most prevalent form of DICP to augment the complaints function. Only a few states make a toll-free hotline available to insurance consumers and distribute information through newspaper columns. The most frequently cited reason for not initiating more DICP efforts is budgetary constraints.

The Current Thrust

In the consumerism movement, more attention is being given by insurance regulators to the question of policyholder treatment. However, because of the form that the current thrust is taking the role of DICP in the movement is unclear.

Identification of Regulatory Imbalance

The 1974 "New York Report on Regulation of Financial Conditions of Insurance Companies" stimulated interest in the need to give more attention to policyholder treatment. The Report disclosed that of the time spent in examining insurers, for domestic life insurers, 22.2 per cent was devoted to policyholder treatment aspects. For domestic non-life insurers, the per cent was 16.3.[5] This data caused the department to question whether it was allocating its resources efficiently in view of consumer expectations. The Report concluded that it is no longer appropriate to regard the prevention of insolvency as the absolute goal of insurance regulation. "Instead, the regulatory objective of sound financial condition must increasingly be balanced against its impact on other, perhaps more important, goals related to improved market performance."[6]

The National Association of Insurance Commissioners (NAIC) is participating in the movement toward giving greater attention to policyholder treatment. The McKinsey Study,[7] commissioned by the NAIC, identified two ultimate purposes of surveillance or insurance company examinations: first, to protect against insolvencies and, second, to ensure fair treatment of policyholders and claimants.[8]

In considering the deficiencies in the present examination system, the Study concluded that "... the procedures that do exist focus almost exclusively on financial condition; procedures for evaluating the treatment of policyholders and claimants are virtually nonexistent."[9] Further, regarding the emphasis on financial condition:

> (The examination system) allocates most of the man-months spent in examination of financial conditions to companies that are least likely to have solvency problems. ..., in the past 5 years, over 60 per cent of examination man-months has been spent on companies with premium income of over $25 million, even though there have been no insolvencies among companies of that size during the past 10 years.[10]

Market Conduct Surveillance System

The remedy recommended by the Study to intensify the regulatory attention given to the fair treatment of policyholders and claimants is to divide the examination system into two parts as follows:

> 1. A financial condition surveillance system, which will focus on a company's financial soundness.
>
> 2. A market conduct surveillance system, which will focus on a company's practices in sales and advertising, rating, underwriting and claims handling.[11]

The purpose of the market conduct surveillance system (MCSS) is to protect policyholders and claimants against unfair sales, advertising, underwriting, rating, and claims practices.[12] The key elements in the MCSS are:

> 1. a complaint analysis system that identifies the problem companies and the problem lines of business in the state,
>
> 2. a system for scheduling targeted field examinations, and
>
> 3. field examination procedures tailored in scope and depth to the nature of the company's operations and the problems at issue.[13]

The MCSS is a positive development for insurance consumer protection and may lead to expanded DICP but there are reservations. It is in the early

stages of implementation and no state is compelled to adopt the system. Also, the procedures set out in the recently drafted Market Conduct Examination Handbook will not necessarily bring about a stronger regulator consumer relationship.

The Handbook calls for the evaluation of market conduct to be primarily based on a sampling of pertinent information on file with state insurance departments, such as complaints, rating, and policy form information.[14] The commissioners may find that their existing information is inadequate for effective market conduct surveillance. For example, the complaints on file may not be a sufficient data base if a significant number of consumers who have complaints do not in fact register them. Therefore, regulators will establish lines of communication with policyholders and claimants to gather needed information and thereby promote DICP only in proportion to their desire for MCSS to be effective.

Consumer Awareness of the Insurance Department Consumer Protection Function

A Recent Study of Consumer Perception

In the recent Wharton Study,[15] the researchers asked each individual sampled: How would you rate the job the Federal Government, the state government, local government, and private consumer protection groups do in protecting consumers' rights on insurance?[16] The responses are summarized in Table 2. In analysing the ratings, the authors note:

> If the response "excellent" or "pretty good" is termed positive and "only fair" or "poor" is negative, then only private consumer groups receive more positive responses than negative ones (33 per cent positive versus 32 per cent negative) and even for this category 35 per cent are not sure how good a job such groups are doing.[17]

Table 2

Agency	Per cent of Respondents by Rating Indicated				
	Excellent	Pretty Good	Only Fair	Poor	Not Sure
Federal government	3.4	29.5	29.2	14.6	23.2
State government	4.4	34.1	29.1	12.0	20.5
Local government	2.9	24.3	24.9	18.3	29.6
Private consumer protection groups	4.6	28.7	21.2	10.7	34.7

Source: J. David Cummins, Dan M. McGill, Howard E. Winklevoss, and Robert A. Zelten, Consumer Attitudes Toward Auto and Homeowners Insurance. (Department of Insurance, Wharton School-University of Pennsylvania, 1974), p. 204.

The fact that the negative responses outweigh the positive responses for all government categories is informative in evaluating consumer perception of the effectiveness of various agencies in protecting their rights on

insurance matters. But, it is most significant that the distribution of the ratings from one government category to another does not vary significantly even though local government has no role in insurance regulation, federal government has a minor role, and state governments have the dominant role. This indicates that "... many consumers are obviously unaware of who actually regulates insurance, or if it is regulated at all."[18]

An Analysis of Consumer Awareness

With respect to insurance regulation, the Wharton Study focused on consumer perception of the effectiveness of the consumer protection afforded by various agencies. It would appear that a basic related question would be: Are insurance consumers aware that consumer protection is available, and if so, are they aware of who is the provider and what are its forms? Therefore, as a part of the study at hand, a survey was conducted to provide some basis for an assessment of insurance consumer awareness and understanding of the consumer protection function of the Ohio Department of Insurance. The survey proceeded on the assumption that (1) DICP is a valid function of a state insurance department, (2) if DICP is being pursued, insurance consumers will be aware of it, and (3) for insurance consumer protection to be effective, consumers must be aware of the services offered by an insurance department.

Seventy non-commercial automobile insurance policyholders in Wood County, Ohio were selected to participate in the survey. The sample size of 70 and the base of Wood County simply reflect time and resource constraints. It was decided to survey non-commercial automobile insurance policyholders because of the relatively higher incidence of renewal, rating, and claims which make it a more "active" type of insurance than most.

The following is a summary and analysis of the data obtained from the 51 respondents who were willing to participate out of the total of 70 policyholders originally selected. Notwithstanding its limited scope, the results of the survey are instructive.

Who Would You Contact? The Blue Cross and Blue Shield organizations in Ohio have recently sought rate increases for certain categories of subscribers. The refusal of the insurance commissioner to grant the requested increases has been widely publicized in the media in the Wood County area. Therefore, it seemed appropriate for the first question asked each policyholder surveyed to be: "Blue Cross/Blue Shield recently requested rate increases for certain types of policyholders. If you wanted to express your opinion about this increase, whom would you contact?"

Twenty of the 51 respondents would express their opinions directly to Blue Cross/Blue Shield. Eighteen did not know whom they would contact. A variety of other sources were identified. Only one respondent stated that he would contact the insurance commissioner. The response suggests

that policyholders do not perceive that there is a potential for direct communication with the very person or agency responsible for insurance consumer protection.

Are There Agencies? In an attempt to measure the general awareness level by the policyholders of government agency efforts to protect consumer interests and to determine the comparative position of the Ohio Department of Insurance, the second question was: "To the best of your knowledge, are there state government agencies that protect consumer interests?" Thirty-five answered "yes," eight "no," and nine indicated that they did not know. There is no standard against which to compare the 66.7 per cent "yes" response rate. It does not appear to be a particularly good or poor awareness level.

Those who said "yes" were asked: Are there any that come to mind? The response is informative. One-half of the 34 were not able to name an agency. The remaining 17 most often identified the Better Business Bureau (BBB) and the Ohio Consumer Protection Agency (CPA) with each being mentioned six times. The fact that the BBB is not a government agency may or may not be of significance. It is important that only three policyholders named the insurance commissioner or the state insurance department. The response suggests that insurance regulators rate comparatively low as visible protectors of consumer interests.

Where Would You Complain? In order to test the extent to which the policyholders might look toward the Ohio Department of Insurance to register a complaint, the third question was: "Suppose you had the following problem: You were in an auto accident and you don't think you were offered a fair settlement for your loss. Where would you go to complain?" The wording of the hypothetical situation required the respondent to make some judgment as to dollar amount significance and the stage of the impasse, but the results are interesting.

Over one-half (28) stated that they would seek out an attorney or go to court. Fifteen would attempt resolution with their insurance agent or company. The BBB, CPA, and the Department of Motor Vehicles were mentioned by others and a number did not know where they would go to complain. It is most significant that not one policyholder identified the insurance department as a place to take the complaint. This clearly indicates that policyholders are not generally aware of the consumer services offered by the insurance department and of the DICP function.

Is There An Insurance Department? The awareness issue was pursued by the next question: "Please answer this question with "yes," "no," or "I don't know." To the best of your knowledge, is there an Ohio government agency that oversees the insurance business?" Twenty-three answered "Yes," 22 "I don't know," and only six said "no." As with question two, there is no standard against which to compare the responses. However, the 45 per cent "yes" response rate would not seem to reflect a generally positive level of awareness. Perhaps many gave this answer because some type of regulation would be logical in view of the technical nature of the contract and the seeming "bigness" of the insurance business.

The 23 "yes" respondents were asked: "Do you know the name of it?" Nineteen did not know the name and one incorrectly gave the Department of Motor Vehicles as the answer. Only three identified the insurance department precisely or approximately. The titles given were Ohio Insurance Commission, State Insurance Board, and State Department of Insurance. These three were the same who identified the insurance department in the more open query in question two. The responses to the more direct question at hand confirms the relatively low awareness level among policyholders of the existence of a state insurance department and its consumer protection function.

Is There A Hotline? Finally, each policyholder was asked: "Are you aware that there is a toll-free hotline to Columbus to hear consumer complaints about insurance?" Thirty-nine said that they were not aware, three said "I don't know" and nine answered "yes." The proportion who were aware of the hotline compares favorable with the awareness levels indicated by the responses to the previous questions. However, an analysis of the nine "yes" answers is informative.

The toll-free hotline may be thought of as an invitation to contact the insurance department for information or to make a complaint. It is interesting that the three respondents who were included in previous questions as having identified the state insurance department did not know that the hotline is available. Apparently, their knowledge of the department is based on other experiences or information.

It is most significant that all those who knew about the hotline made no reference to the insurance department in response to the hypothetical situation in question three. The relationship is all the more informative in that the word "complain" was specifically used in question three. Seven of the nine who answered "yes" to the hotline question indicated that they would complain to an attorney given the problem in question three. The other two would complain to their insurance agent or company. Comparing the responses to question three (the problem situation) and the hotline question suggests that the policyholders have not been informed of the purpose of the hotline and are not aware that the insurance department offers the consumer service and intermediate step of processing complaints.

Summary Statement. The results of the survey indicate that the policyholders in Wood County are generally not aware of the existence of the Ohio state insurance department and of its consumer protection function and that the DICP function is not being actively or effectively pursued. The generalization of these results would be subject to further research, but there is no reason to doubt their representativeness.

Recommendations and Conclusions

A basic position that could be taken is that there is no need for a well-defined active relationship between insurance regulators and insurance

consumers as long as indirect regulation is effective. In fact, some may argue that any general unawareness by insurance consumers of the consumer protection function of insurance departments is evidence that insurance regulation as currently practiced is effective and consumers seldom have reason to complain or seek information. But there are reasons for insurance departments to be complete insurance consumer protection agencies.

The Charge to the Commissioner

Why should we expect more of our insurance commissioners in the area of consumer protection (policyholder treatment) and more specifically in DICP? A basic reason is that they are charged with protecting insurance consumers. The regulatory scope of an insurance department is broad and the statutory and discretionary powers of a commissioner are extensive. For example, the following charge to the Ohio Insurance Commssioner is representative:

> The superintendent of insurance shall be the chief executive officer and director of the department of insurance and shall have all the powers and perform all the duties vested in and imposed upon the department of insurance. The superintendent of insurance shall see that the laws relating to insurance are executed and enforced.[19]
>
> The superintendent of insurance shall adopt, amend and rescind rules and make adjudications, necessary to discharge his duties and exercise his powers,...[20]
>
> The superintendent of insurance, or a person appointed by him for that purpose, may make an examination of the affairs of any insurance company doing business in the state as often as he deems it expedient for the protection of the interests of the people of this state but not less frequent than once each three years.[21]

The charge is not so narrow, for example, as to provide that the commissioner is appointed primarily to guaranty the solvency of insurers. Solvency regulation is a means to an end, not an end. The charge clearly requires the commissioner to protect the insurance consumer in the broadest sense.

As indicated earlier in this paper, some commissioners have used their expansive authority to practice forms of DICP. However, the current emphasis on indirect regulation and the infancy of DICP may be a result of the infrequent inclusion of the DICP function in the charge to the commissioner.

A few states have laws similar to the following:

> 1. General. The Commissioner may prepare books, pamplets, and other publications relating to insurance and sell them in the manner and at the prices he determines.

2. Free Distribution. The Commissioner may furnish free copies of the publications prepared under subparagraphs (1) and (2) to public offices and libraries in the state and elsewhere.[22]

Such a statute gives the commissioner a base upon which to broaden DICP but it is not a clear charge.

In a search of all the state insurance does only one code was found in which the commissioner is explicitly charged with practicing the DICP function. The Alaska Code provides:

> Duty to Inform the Public
>
> The director shall regularly inform the public of matters concerning the purchase, price, coverage, benefits, and rights of insurance marketed in this state and make available information on availability of the services of the division of insurance. The director shall prepare, publish and revise as it becomes useful or necessary to do so, an information pamphlet on insurance and the rights of a consumer of insurance and on how to take advantage of the services of the division of insurance.[23]

In order to advance insurance consumer protection, DICP, and the effectiveness of insurance regulation, and for it to become clear that insurance departments are insurance consumer protection agencies, it is recommended that all states include the Alaska statute in their charge to the commissioner. An insurance department will be a complete insurance consumer protection agency only if it is readily available to consumers and if they are aware of that availability.

Resource Availability

Are resources available to be expended by the states to expand their consumer protection and DICP functions? Earlier in this paper, it was noted that some departments have curtailed their DICP efforts because of the lack of resources. There are many demands and needs for state funds, but the state revenues and fees generated from the operations of the insurance business and the regulatory function suggest that insurance departments may not be getting their fair share for use in carrying out the regulatory function including consumer protection and DICP.

In Table 3, the states are distributed according to the funds spent for the operation of the insurance department as a per cent of premium tax and fee collections by the state (including the District of Columbia). Premium taxes are assessed by all states and are usually a per cent of an insurer's premiums collected. Not all premiums are subject to taxation. Fees are assessed for various activities of the insurance departments, such as for agent and company licensing and examination. The data

are for the 1974 calendar year which are the latest available. The lag is accounted for by the time needed by the states to finalize premium tax collections and to audit for accuracy and the lack of centralized collection of this type of data.

Table 3

Operating Funds as a Per Cent of Premium Taxes and Fees[a]	Number of States
2.5 or less	5
2.6 - 5.0	25
5.1 - 7.5	15
7.6 - 10.0	3
10.1 or more	3
Total	51

Source: The Independent Insurance Agents Association of Ohio, Inc., Agency Bulletin (Columbus, Ohio, March 7, 1977).

[a]In ten states which contract for examiners, the departments' expenditures do not include this cost.

It is interesting to note that in most states the operating costs of the insurance department are between 2.6 and 5.0 per cent of the total revenue generated for the state from insurance. Many states fall in the 5.1 to 7.5 per cent category. There are even a few states in the 2.5 per cent or less group. The lowest was 2.2 per cent with the top of the range being 15 per cent.

It would be dubious to argue that all revenues generated by a business should be allocated to its regulation, but the data are at least suggestive for the resource question. Is there a lack of resources or is it a general misallocation of resources that hinders the insurance consumer protection and DICP functions of insurance departments?

The data in Table 4 add to the evidence. The states are distributed according to the funds spent for the operation of the insurance department as a per cent of fee collections only by the state (including the District of Columbia). The fees result directly from the functioning of the department, such as the fees from agent and company licensing and examination referred to earlier.

Table 4

Operating Funds as a Per Cent of Fees	Number of States[a]
50 or less	2
51 - 100	10
101 - 150	21
151 - 200	5
201 - 250	5
251 - 300	4
301 or more	1
Total	48

Source: Same as for Table 3.

[a]Three states did not report any fees collected.

Twelve states spend less for insurance department operations than they collect in fees. Another 21 states fall within the 101 to 150 per cent category. The highest per cent was 344 for one state. The concentration of states at 150 per cent and below suggests that insurance departments may not be receiving their fair share of revenues for regulation.

Finally, per cents based on totals in Table 5 are instructive.

Table 5

Type of Revenue	Total Operating Funds of All States as a Per Cent
Total Premium Tax and Fee Collections	5.1
Total Fee Collections Only	127.0

Source: Same as for Tables 3 and 4.

For all of the states combined, only 5.1 per cent of the total revenues are spent to operate the insurance departments. The 127 per cent for fees only indicates that as a group the departments are not far from being self-supporting.

The above data indicates that resources are available for allocation to insurance departments for expansion of their insurance consumer protection and DICP functions. Why is a claim for additional resources justified? Because premium taxes and department fees are passed on to and paid by insurance consumers.

It is recommended that insurance consumers and organized consumer groups push for a larger allocation of their funds to state insurance departments to help them become complete insurance consumer protection agencies. Placing more emphasis on DICP and establishing a more visible regulator-consumer structure, if nothing else, will enable the insurance department to better assess the level of consumer satisfaction and thereby regulate more effectively in the area of policyholder treatment. Why regulate with an incomplete structure and on the basis of incomplete information?

FOOTNOTES

1. William Jennings Bryan, "The Purpose of Insurance Regulations," 1914 Proceedings, National Convention of Insurance Commissioners. Reprinted in Insurance, Government, and Social Policy, Spencer L. Kimball and Herbert S. Denenberg, Editors (Richard D. Irwin, Inc., 1969), p. 19.

2. Ibid.

3. Samuel C. Cantor, "Market Conduct Surveillance - An Overview and Status Report (Part 1)," Best's Review - Property/Casualty, Vol. 77, No. 1 (May 1976), p. 82.

4. Robert C. Siddall, "Life Insurance Consumerism and the Reaction by Industry Regulators," (Unpublished Research Report, Bowling Green State University, 1975), pp. 21-31.

5. Samuel C. Cantor, op. cit., p. 82.

6. Ibid., p. 86.

7. See "Strengthening the Surveillance System - Final Report," NAIC Proceedings, Vol. II, 1974, pp. 225-379.

8. Ibid., p. 232.

9. Ibid., p. 240

10. Ibid., pp. 242-243

11. Ibid., p. 246.

12. Ibid., pp. 274-275.

13. Ibid., p. 281.

14. NAIC Model Market Conduct Examination Handbook (Adopted by the NAIC, June 10, 1976), pp. 1-81.

15. See J. David Cummins, Dan M. McGill, Howard E. Winklevoss, and Robert A. Zelten, Consumer Attitudes Toward Auto and Homeowners Insurance (Department of Insurance, Wharton School - University of Pennsylvania, 1974), pp. 1-281. The study was sponsored by the Sentry Insurance Group and conducted by the Wharton School Insurance Department with the assistance of Louis Harris and Associates. The study was based on responses to a questionnaire administered to a random sample of 2,462 individuals.

16. Ibid., p. 250.

17. Ibid., p. 204.

18. Ibid.

19. Baldwin's Ohio Revised Code Annotated, Section 3901.011.

20. Ibid., Section 3901.041.

21. Ibid., Section 3901.07.

22. Wisconsin Statutes Annotated, Section 601.47.

23. Alaska Statutes, Section 21.06.115.

UNJUSTIFIED COMPLAINTS

Dr. Stephen A. Graham*

Every public consumer protection agency which receives complaints receives unjustified and unruly complaints. Consumers ask for relief to which they are not entitled and they ask consumer protection agencies to do things which such agencies cannot or should not do. How should these complaints be handled? This article attempts to answer this question on the basis of unjustified and unruly complaints received by the South Carolina Department of Consumer Affairs.

Public interest in consumer protection began with the realization that the doctrine of caveat emptor presupposes an equality of economic bargaining power between buyer and seller which does not exist in the American consumer marketplace. Caveat emptor may be a realistic maxim in a market composed of buyers and sellers whose financial resources and entrepreneurial skills are approximately equal. Among businessmen in many industries the doctrine is probably good advice. But between an individual consumer and the businesses from which he buys most of what he needs for himself, his family and his home, the consumer is at a disadvantage.

The converse of the doctrine of caveat emptor is that if the consumer is not wary, and is taken advantage of by a merchant, he has only himself to blame. According to the doctrine, self-help is the consumer's only protection. The only possible function of consumer protection is education: "forewarned is forearmed."

Consumer protection as we know it today, however, is not limited to consumer education. All of the states and many cities and counties have established consumer complaint handling systems to prevent the abuse of the private marketplace by business enterprise and to provide a means of redress for consumers who have been the victims of such abuse. It is not the buyer but the seller who must beware so that the buyer will not complain to the local Department of Consumer Affairs. But the complaint systems operated by public consumer protection agencies are not a panacea. No public agency, regardless of the scope of its legal authority or the size of its budget, can offer a remedy to every consumer who files a complaint. In some cases a public agency can only hope that the complainants it cannot help will be better informed about their rights and responsibilities as consumers in the future. In this sense the doctrine of caveat emptor is not obsolete. The buyer must still beware. The point is that public consumer protection agencies cannot bring consumers to the position of full equality with businesses which caveat emptor presupposes.

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The South Carolina Department of Consumer Affairs

The South Carolina Department of Consumer Affairs was established by the Consumer Protection Code to enforce the provisions of that Act (Act 1241, 1974 Acts). Since the law incorporates most of the Uniform Consumer Credit Code, the Department of Consumer Affairs is responsible for the regulation of the consumer credit industry in South Carolina.

In addition, Section 6.117 of the Consumer Protection Code (Section 8-800.387, Code of Laws of South Carolina, 1962, as amended) requires the Administrator of the Department of Consumer Affairs to "receive complaints of individuals pertaining to any consumer transaction arising out of the production, promotion or sale of consumer goods and services." The Administrator must "endeavor to determine the probable basis and merit" of such complaints and to "advise the complainant of such determination." This is the first job of the Department's Complaint Analysts: to determine whether a complaint concerns goods and services purchased for personal, family or household use as opposed to items purchased for business or commercial use. Although Department personnel assist everyone who calls or writes the Department, the complaint process is a service performed for the ultimate consumer.

A more difficult decision for the Complaint Analyst stems from his responsibility to determine the merit of every complaint he receives and to communicate his determination to complainants. Since most people who contact the Department do so initially by telephone, the Analysts' determination that a consumer complaint is unjustified is sometimes communicated during this telephone conversation. Other telephone calls are made by consumers with problems which fall within the jurisdiction of other agencies. All Department personnel, including Secretaries, who take calls from consumers maintain an up to date file of public and private agencies to which such problems can be referred. Finally, there are telephone calls from consumers who need advice and information. Many of these callers do not have a complaint. They need a sympathetic listener.

Each month approximately four hundred complaint forms are mailed to consumers who telephone the Department about complaints which seem to justify a response. About one-half of these forms are returned to the Department. Before the Department asks a business to reply to a written complaint, a Complaint Analysts must be able to answer three questions: namely, What is the complaint? Who is the complaint against? What does the complainant want the business complained against to do to resolve the complaint? The Analysts identify many unjustified complaints through the use of these questions. A complaint may be considered unjustified, for example, if no consideration (money) is lost.

The three questions can also be used to identify unruly complaints. An unruly complaint is, for example, one where the Analyst responsible could not determine from what the complainant stated what he wanted the business or our Department to do. The request may be that the Department should investigate the merchant's business and make sure that he obeyed the law. It may be that the consumer is entitled to a refund from the merchant. And, although there is no law in South Carolina

requiring businesses to make refunds on returned merchandise, it is possible that the merchant named in his complaint is violating some provision of the Consumer Protection Code. Such complaints are not necessarily unjustified. They are "unruly" only if, on the basis of the information supplied by the complainant, the Department can neither contact the merchant and attempt to obtain a refund, nor can it investigate an alleged violation of law. Another example of an unruly complaint may be one where the consumer no longer has an interest in the merchandise. For example, a complaint involving an automobile that has been repossessed and resold by the bank would be considered unruly because the consumer no longer has any interest in the automobile.

Generally speaking, public consumer protection agencies cannot depend on businesses' being willing to do more than they must to satisfy consumers and resolve complaints. Consumers who file unjustified complaints should be told that their complaints are unjustified and they should be told why their complaints are unjustified.

Sometimes the human service performed by consumer protection agencies is more important than the enforcement of the law. Very few complaints received by the Department allege a violation of the South Carolina Consumer Protection Code. In many cases the complainant is unaware that his complaint contains a violation of the Code. Although such complaints are investigated to make sure that the business complained against is aware of the law and will comply with it, the Department's first responsibility is to resolve the consumer's complaint.

Unjustified complaints impose another limitation on public consumer protection. When all of the relevant facts are furnished by the complainant, it is better to tell him that his complaint does not justify a response from the business complained against than to mislead him by contacting the business. When the complainant does not furnish all the relevant facts and it is obvious from the business' reply that the complaint is unjustified, he should be so advised.

Unruly complaints also limit consumer advocacy. Responding to a consumer's needs instead of investigating his complaint regardless of his needs is difficult if he does not express his needs.

The doctrine of caveat emptor would treat all complaints as unjustified. The consumer advocate, on the other hand, might investigate all complaints to vindicate the rights of the complainants. There is a middle ground which consumer protection agencies can occupy. It is difficult to offer a general prescription for handling unjustified and unruly complaints. Each complaint expresses a consumer problem to which complaint analysts must respond. Every effort should be made to determine whether the complaint accurately articulates the problem. Complaints are often unruly or unjustified because they do not reveal the complainant's problem. In many cases consumer advocates will be frustrated by their inability to discover the problem and to act accordingly. Insofar as public consumer protection agencies speak as an advocate of consumer interests they must cope with this frustration.

CONSUMER EDUCATION--ISSUES AND THE OFFICE OF CONSUMERS' EDUCATION EFFORTS

Dr. Dustin W. Wilson, Jr.*

The perception of consumer education from the Federal vantage point of the Office of Consumers' Education is broad and provides information and insight not easily gained at locations in universities, local or state agencies, or at local community organizations. It is a composite of all of these. The diversity of applicant agencies, the people with special needs they identified, and the issues and concerns selected for consumer educational attention unmistakably highlight the national concern for this field. Clearly consumer education is not the sole province of the professional educator. It must be shared with other equally concerned groups.

All consumer professionals have their own perceptions and understandings of consumer education. Because the Office of Consumers' Education received 839 proposals last year, and funded 66 projects, the Federal perception of consumer education is necessarily a broad and also an enlightened one. First, the incredible diversity of the applicant agencies is striking. While half of the applications came from education groups, the other half came from public and private non-profit agencies. The most obvious conclusion one can draw from this response is clearly that consumer education is not the sole province of education. It must be shared with other groups.

A second perception of consumer education gained from the national view is the intensity of concern applicants have towards an extraordinarily broad range of clients or target groups. While the numbers of applicants reveal a high level of interest, they alone do not provide an adequate measure of the deep concern for a more equitable opportunity for the low-income consumer.

The topics and problems raised by the applicants provide still another insight into the field of consumer education. Though money management and related issues remained the most frequently mentioned problem areas, the human services of health, education, and other social and civic services emerged as major new topics. An interesting commentary on the human services as a consumer education topic developed during the proposal review period. The readers, many from traditional consumer education backgrounds, debated among themselves the appropriateness of them as consumer education topics. They discussed whether or not education was itself a consumer education subject, the same for health, welfare, or the corrections system. It was a learning experience for the readers.

*Director, Office of Consumers' Education, Department of HEW

Energy, housing, and transportation surfaced as consumer issues. The energy topic was frequently coupled with regulatory and rate setting bodies. Clearly, a more active role for consumer education was proposed in these projects. I might add parenthetically, these were not "active" in the sense of boycotts or picketing, but more toward an understanding of the process and how one can influence that process.

Curriculum and other materials were other repeatedly stated needs. These were usually expressed in terms of specific target groups--low income, limited English-speaking, rural and urban, Indians in cities and on reservations--for example. The oft-voiced observation that consumer education is a white middle class program was never more apparent than in these issues.

From the grant proposals, three areas were identified reflecting needs within the consumer education field: practical problems about the program itself; educating consumer educators; and identifying problems and raising questions about issues which the professional consumer educators should examine. These three were addressed by this office mostly by means of the contract authority of our legislation. With this, the office can specify the problem or topic to be considered and let contracts accordingly.*

On the immediate and practical level, four publications were prepared. One is a brief flyer describing the program and how one gets into the act, entitled "Some Questions and Answers About Consumers' Education." The second, "If You Are Writing Your First Proposal...", is written in laymen's terms providing some guidelines for writing an application. Third, "The Community is Your Classroom" is a description of the resources available in most communities which a teacher can use in her or his classroom. The last of the papers is entitled "Guidelines for Consumer Activity", this is a manual for community based groups suggesting effective and simple procedures to use when establishing and maintaining consumer efforts.

The second category of materials was developed to educate consumer educators who have been assigned responsibilities in teaching consumer education but who have minimal experience or training in the field. There are four of these--"State of the Art" by Lee Richardson; "Consumer and Economic Education--An Historical Perspective" by Gayle Trujillo; "How to Survive in Consumer Education" by Sidney Margolius; and "A Guide to Instructional Resources for Consumer Education" by Bill Johnston. These four were designed for teachers in schools or in other organizations.

The third group of materials is directed toward the profession of consumer education. They were intended to identify issues which appear to be emerging or which need clarification and development. They address specific topics--"Mayors and Consumer Education"; "Consumer Education and the Human Services"; and "Analysis of Consumer and Economic Education."

*These materials are available from the Office of Consumers' Education.

The future of the Office of Consumers' Education is a challenge primarily to this organization, the American Council of Consumer Interests, the only national professional organization of educators.

Although the potential base of support is broad, and the personal level of interest is high by the people in the field, the field is not organized. Simply stated, consumer education will never get together if this group does not become the dominant force behind it. The nation needs an informed, active and assertive consumer citizen. This organization is the only one that can currently assist in reaching that goal.

HISTORY OF THE DEVELOPMENT OF NATIONAL ASSESSMENT'S CONSUMER SKILLS ASSESSMENT

Mr. Richard Hulsart*

National Assessment of Educational Progress (NAEP), a project of the Education Commission of the States (ECS) in Denver, Colorado, will conduct a nationwide assessment of the consumer skills of 17-year-old students in the Spring of 1978. This assessment will assess the attitudes and skills of 17-year-olds in the following areas: personal finance, consumer protection, consumer economics, consumer behavior, and energy.

The consumer area was first identified as one of the basic skills to be included in National Assessment's Basic Life Skills (BLS) Assessment. The consumer skills exercises developed for the BLS Assessment focused primarily on the areas of personal finance and consumer protection. When National Assessment explored the possibility of doing an assessment of consumer skills at the 17-year-old level, consultants indicated that the development should be expanded to include exercises measuring both consumer economics and consumer behavior, in addition to the areas of personal finance and consumer protection.

Since National Assessment did not have the time or the funds necessary to develop a comprehensive set of consumer skills objectives the project relied on objectives prepared by the Consumer Education Curriculum Development Project staff of the Duval County Public School System in Jacksonville, Florida. This comprehensive set of consumer objectives had been developed by Duval County under a Title III ESEA grant as a guideline for the development of a consumer education program.

During the Fall and early Winter of 1977 members of the National Assessment consumer development team worked with various consultants to develop approximately two hundred consumer skills exercises. These exercises were field tested in February, and a final selection of exercises for the Consumer Skills Assessment was held in March. The Consumer Skills Assessment of 17-year-olds is scheduled to be administered in the Spring of 1978.

The following is a list of the major topics to be covered by the Consumer Skills Assessment.

*Area Development Coordinator, National Assessment of Educational Progress

National Assessment of Educational Progress (NAEP) is funded through the National Center for Educational Statistics and administered by the Education Commission of the States (ECS) in Denver, Colorado.

Consumer Behavior

Environmental Influences
Psychological Influences
Perception
Needs, Wants, Motives
Decision-Making

Consumer Economics

Income
Money and Credit
Economic Fluctuations
Principles of Economics
Business
Production
Marketing
Supply and Demand
Government Economic Policy
Government Services, Taxes and Spending

Personal Finance

Money Management
Shopping Skills
Use of Credit
Goods
Services
Insurance
Savings
Investing

Consumer Protection

Causes of Consumerism
Outcomes of Consumerism
Need for Protection
Business and Consumer Action
Government Action
Product Safety

Energy

Due to the importance of energy as a concern in the consumer area, appropriate energy exercises from the Science Assessment were added to the Consumer Skills development. Energy, therefore, appears as a separate consumer area.

Consumer exercises from the BLS Assessment are currently available to interested people. Reports of the results of the BLS Assessment will be available sometime after January of 1978.

Exercises from the Consumer Skills Assessment will be available after the completion of the Consumer Assessment in May of 1978. Reports of the results of the Consumer Assessment will not be available until 1979.

Copies of the consumer materials can be obtained by contacting:

Richard Hulsart
Area Development Monitor
National Assessment of Educational Progress
1860 Lincoln Street, Suite 700
Denver, Colorado 80295

AGENCY FOR CONSUMER PROTECTION: DISCUSSION

Ms. Sandra Willett*

The Agency for Consumer Protection does the following:

A. Creates a Federal Agency for Consumer Protection

B. Authorizes ACP to:

1. Represent consumer interests by participating or intervening in Federal agency proceedings and activities and appealing for judicial review of such decisions, if necessary.

2. Gather and disseminate information of importance to consumers.

3. Act as a clearinghouse for consumer complaints by receiving, reviewing and transmitting complaints from the public.

4. Study and survey consumer needs and preferences and report annually to Congress and the President on ways to improve the Federal government in the protection and promotion of consumer interests.

C. Authorizes $15 million dollars in the first year (approximately 25¢ for the average family paying taxes). ACP is authorized for three years only after which Congress must reassess its functions and performance.

The Agency for Consumer Protection Bill does <u>not</u>:

A. Regulate industry.

B. Supersede, supplant or replace the functions or powers of any Federal agency necessary to discharge its own statutory responsibilities.

C. Impose fines, set rates or ban products or force business to change their practices.

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*Executive Director, National Consumers League

ABSTRACT*

THIS BUSY MONSTER:

REFLECTIONS ON THE CONSUMER SOCIETY

The Honorable George Brunn**

Individuals and families are buffeted by large organizations that do not function in the interest of consumers.

The following are steps that can be taken to develop more equity in our system:

1. Standards of size. Big is not bad, but some organizations, governmental as well as private, seem clearly to have grown beyond their optimum size. Instead of quadrennial campaign rhetoric about big government and big business we need to build on the few studies that have been made. We need to translate what we find into action if we are not to be the victims of an increasingly oppressive gigantism.

2. Standards of concentration. We need to strive for an agreement on what degree of concentration we will tolerate in an industry. The degree need not be the same for each industry. In contrast to our notoriously ineffective anti-trust laws under which we last broke up a large concentrated industry around 1911 and under which the current suit against IBM is expected to take ten years, laws setting standards of concentration could be coherently developed and quickly enforced.

3. Standards of growth. These are related to the two standards just discussed. One approach could be to block acquisitions by any business that has reached a certain size. This would be far simpler and more effective than our present cumbersome laws. Similarly, standards of growth need to be formulated for public agencies. The inclination, which almost amounts to a natural law, toward organizational growth must be counteracted at the core so that any growth is directly related to improved performance of functions that we help determine.

One idea we need to explore seriously is whether we can, without causing harm, undercut the tendency of organizations

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

**Judge, Municipal Court, Berkeley-Albany Judicial District, California

toward growth and self-autonomy at the expense of other functions by eliminating their near immortality. Are these institutions, we might ask, where we would be better off to say at the outset--and to mean it--that you have five or ten or twenty years to do your job and no more.

4. Standards of information. There is, of course, the on-going effort, so familiar to all of you, to get clear, accurate and helpful information to aid individuals who buy goods or services in making wise choices. We have a long way to go. But beyond that we need such things as, to mention just two:

--Information on the detailed operation of multinational corporation. I have alluded to the problems posed by such organizations. No government, let alone the public, now gets sufficient data about their activities to set public policy effectively. Ongoing, accurate information is of critical importance. The alternative, in essence, is government of, for and by IT&T and its counterparts.

--Standards aiming at uniformity of accounting and other data collection within an industry or layer of government so as to facilitate intelligent comparison and analysis.

5. Standards of consumer impact. We can measure, to a degree, environmental impact. By the same token, the impact of a host of business and government actions on the consuming public can be ascertained at least to a point and standards can accordingly be fashioned. This is not simple and it is susceptible to the same any-opinion-for-a-price abuses that have cropped up with environmental impact reports, but it may be central to the functional approach that I have suggested.

6. Standards of monopoly performance. If we are to tolerate the existence of monopolies, such as utilities, at all, we need to develop and enforce very clear standards that embody our reasonable expectations of their performance. We permit these monopolies on the theory that they are regulated by the public. Traditional regulation has become almost wholly unworkable. We watch helplessly as the energy industry doubles, triples and quadruples its prices, all the while feeding us and the regulators a stream of fraudulent propaganda.

Note that even if we nationalize monopolies, such performance standards will still be needed and, like other standards, they should ultimately be set by us and not be self-styled experts.

7. Appropriate technology. Thanks to Schumacher and a handful of others we are at last beginning to think about technology appropriate to genuine human needs and to the fragile life on this planet. Schumacher's concepts apply not only to developing societies; they apply perhaps most cogently to us.

8. Effective methods of participation. The present corporate society wants us to be passive and acquiescent consumers, a thoroughly dehumanizing role. We need to develop channels of active participation in many of the decisions that affect us, particularly decisions on the kinds, quality and cost of the goods and services available to us and on government policies that significantly affect us. In short, we need to develop for ourselves, as consumers, analogs to collective bargaining. Embryonic methods of participation already exist in a number of local groups.

9. Effective methods of consumer complaint resolution. We need fast, fair, easily accessible, inexpensive mechanisms for resolving not only individual complaints but those that raise systemic questions. This area is closely related to the previous one. With a significant degree of active consumer participation in the economic processes we can develop workable grievance and arbitration machinery. In the meantime there are interim steps we can take. For example, we already know quite well what makes a good small claims court and, in fact, such courts function in several states. It is well within our present capacity to get good small claims courts, free of lawyers and collection agencies, throughout the country.

10. A far more serious effort to combat inflation. Politicians love to thunder against inflation whenever the polls show high public concern about it. Politicians say little about the fact that government has a built-in conflict of interest in this area, both as the largest debtor and as a beneficiary of receipts that, except during a bad recession, rise faster than the rate of inflation because of our tax structure.

There are at least two useful steps we might consider. One is to change individual income tax laws, so that to the extent one's income goes up to keep pace with inflation one does not move into a higher tax bracket. The second is to change the corporate income tax structure so as to penalize price increases not warranted by cost increases and to reward price reductions.

There are complexities about each of these concepts and they are obviously not the whole answer. I mention them because of the pressing need for some fresh thinking and for some new tools.

THE CONSUMER SIDE OF REVOLVING CREDIT--AN OVERVIEW

William C. Dunkelberg*

Although revolving credit comprises a small percentage of consumer credit, it is the fastest growing component of such credit. In 1976 it was estimated that about 330 million revolving credit accounts were in active use. The increasing popularity of such credit is explained by the services available through the use of a credit card. Because of the rapid growth of revolving credit, it has come under growing public scrutiny and is the target of new legislation. The major challenge lies not in regulation, but education if consumers are to benefit from advantages the credit system provides.

Revolving credit is the fastest growing component of consumer credit, making up about 15 per cent of total outstanding credit today. Although revolving credit still makes up a fairly small percentage of consumer credit, its importance to the payments mechanism is much larger. Large retail firms estimate that half or more of their volume is "charged" on some type of credit card. In 1976, it was estimated that there were about 330 million reolving credit accounts used by consumers, in comparison to about 135 million non-revolving accounts. There are about 1.5 credit cards for each account, on the average, indicating use of about 500 million cards.

In 1976, it is estimated that these cards were used for about $80 billion in expenditures. Since consumers have the choice of numerous credit sources, one must presume that revolving credit is growing rapidly because it provides better and/or cheaper services than alternative sources. Overall, credit use has not increased relative to income, indicating that, in managing their portfolios, consumers are substituting revolving credit obligations for other sources of credit.[1]

Since 1960, the market shares of various lenders has changed substantially, due to competition (especially for automobile financing), more effective disclosure, and the innovation of revolving credit. Revolving credit has grown to 15 per cent of the market in a very short period of time. Banks in general have increased their market share, with over $20 billion in new bankcard extensions. Finance companies have lost considerable market share, having 42 per cent of the market in 1960, and about 25 per cent in 1976.[2]

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Because of its rapid growth, and the potential importance of the plastic medium in the growing Electronic Funds Transfer system, revolving credit has come under growing public scrutiny and the target of substantial amounts of new legislation, including The Fair Credit Billing Practices Act and the Equal Credit Opportunity Act. Although this legislation applies to all types of credit, many of the concerns dealt with by the acts were spawned in the revolving credit market. These regulations are complex, and, while they help some consumers, they harm others.

Well over half of all families in the U. S. use credit cards. Twenty-five per cent of all retail credit card users in New York used 10 or more cards.[3] The reason for the rapid growth in credit cards is explained by some as the result of pressure on consumers from lenders who would profit from credit card use. However, a closer examination of consumer behavior and attitudes suggests another explanation--that credit cards provide a more convenient and less expensive source of credit for many consumers, and provide a set of other valuable financial services.

First consider the credit services available through a credit card. A consumer must be creditworthy and fill out an application to get any loan. But, this need only be done once for a credit card. Then, the consumer is extended a line of credit, that can be exercised and repaid at the convenience of the user.

Many feel that 18 per cent APR is too high a price to pay for credit. Indeed, for many, it is. Certain consumers would be foolish to borrow $1000 at this rate. For others, it would be a bargain. But, few banks will lend less than $500 or $1000, and usually such loans must be repaid over a period of at least a year. Loans obtained through credit cards are not subject to such restrictions. Small amounts can be borrowed, and repaid as soon as funds are available.

The intelligent consumer minimizes the cost of using credit (thus maximizing the net value of its use). This involves more than simply finding the cheapest loan. It takes time and money to get credit, and this must also be considered. The following expression, although overly simplified, provides insights into the total cost of credit to the consumer:

TABLE 1

ESTIMATED NUMBER OF CREDIT ACCOUNTS: 1975
(millions of accounts)

Revolving Credit	
Bank Credit Cards	40
Retail Credit Cards	170
Check Credit	3
T & E, Airline, Rent-A-Car, Other	20
Oil Company	97
	330 million
Non-Revolving Credit	
Banks (except mortgages)	37
Single Payment (banks)	7
Retail	26
Credit Unions (some revolving)	24
Finance Companies (some revolving GECC, etc.)	41
	135 million

Credit Research Center, Purdue University

TABLE 2

CONSUMER USE OF CREDIT CARDS AND INSTALMENT CREDIT BY INCOME AND LIFE CYCLE GROUPS: 1970

INCOME	USE CREDIT CARDS	PERCENT WITH INSTALMENT CREDIT
Under $3,000	17%	19%
$3,000-4,999	24	31
$5,000-7,499	39	52
$7,500-9,999	54	61
$10,000-14,999	67	65
$15,000-19,999	74	
$20,000-24,999	84	49
$25,000 or more	81	
LIFE CYCLE		
Under Age 45		
Single	39%	41%
Married		
No children	64	63
Children-youngest under 6	60	71
Children-youngest over 6	65	71
Age 45 or over		
Married, has children	58	57
Married, no children		
Head working	58	43
Head retired	35	15
Unmarried		
Head working	46	29
Head retired	23	14
Any Age, Unmarried, has children	27	53
ALL FAMILIES	50%	49%

Katona, et.al., 1970 Survey of Consumer Finances, Survey Research Center, University of Michigan.

TABLE 3

NUMBER OF CREDIT CARDS USED BY CONSUMERS

NUMBER OF CARDS [a]	PERCENT OF NEW YORK RETAIL CREDIT CARD USERS (1973)	NUMBER OF CARDS [a]	PERCENT OF U.S. FAMILIES (1970)
		None	50%
1-5	30%	1-5	2%
5-9	45%	5-8	22%
10-14	20%	9 or more	16%
15 or more	5%		
	100%		100%

[a] Includes retail store cards, bank cards, T & E cards, gas cards and other miscellaneous credit cards.

Robert Shay and William Dunkelberg, Retail Credit Card Use in New York, Katona, Et. a., 1970 Survey of Consumer Finances, Survey Research Center, University of Michigan, 1971.

Where R = the total cost of the loan

r = the rate of interest or finance charge

B = the amount borrowed

W = dollar value of an hour of time

T = time (hours) required to get a loan

k = cost per lender contacted

N = number of lender contacts

Clearly, once a consumer has applied for, and received a credit card, the values of T and N become zero, leaving only the finance charge component of total cost. Thus, for certain sizes of loans and for short term borrowing, the use of the credit card can indeed be the cheapest source of credit. For many users of credit cards, there may be no cheaper source of credit.[4]

Beyond cost of credit considerations, the credit card offers other services of value to consumers. Already mentioned is the fact that very small extensions (charges) can be made at a variety of stores, and that the amounts charged (owed) can be repaid at the customer's convenience. The credit card also consolidates many purchases into one payment, saving the consumer the cost of many checks, or the risk of carrying cash, and the difficulty of planning cash needs.

Credit cards provide identification that makes certain transactions simpler (checking into a hotel; cashing a check); the differing due dates allow expenditures to be distributed; credit cards provide emergency cash and a means to make unexpected transactions when funds are not immediately available.

Studies of credit card usage indicate that many consumers use them primarily for their non-credit services. About 25 per cent of retail credit card accounts are used without the payment of any finance charge. The full balance is paid each month.[5] Another 50 per cent of the accounts pay no finance charges in some of the months that balances are owed. An even higher proportion of bank credit card users never pay finance charges. In some states with low interest-rate ceilings, consumers pay annual fees for the use of bank credit cards, indicating the value of services provided. Similarly, consumers have long paid annual fees for the use of travel and entertainment cards (American Express, etc.).

TABLE 4

RETAIL CARD USE BY INCOME AND TOTAL NUMBER OF CARDS[a/]
(New York Retail Credit Card Users, 1973)

INCOME OF CARD USER	Percentage Distribution	Average Annual Net Sales	Average Finance Charges	Number of Revolving Months	Percent of Sales Revolved
Under $7500	9.0%	$149	$ 6.48	4.1	67.0%
$7501-10,000	8.9	$250	$21.26	6.6	68.7%
$10,001-15,000	26.5	$219	$18.95	5.9	63.1%
$15,001-20,000	26.2	$232	$14.95	5.2	58.5%
$20,001-25,000	12.4	$205	$ 6.74	4.0	41.4%
$25,000 or more	17.1	$224	$17.36	4.8	51.6%
All New York Retail Card Users	100.0%	$218	$15.21	5.2	58.0%
NUMBER OF CREDIT CARDS USED[b/]					
Under 5 cards	29.6%	$233	$20.29	6.5	67.3%
5-9	45.4	$231	$15.21	4.8	55.0%
10-14	19.7	$190	$10.19	4.7	50.1%
15 or more	5.3	$130	$ 5.65	3.4	53.4%
All New York Retail Card Users	100.0%	$218	$15.21	5.2	58.0%

[a/] Data are based on a sample of 100 account histories selected from 17 major New York retailers operating their own credit plans.

[b/] Includes all types: retail, oil company, bank and T&E cards.

Robert Shay and William Dunkelberg, Retail Store Credit Card Use in New York, Columbia University Press, 1975.

The data in Table 4 indicate how consumers in various income groups and card ownership classifications used their retail accounts at 17 major New York retailers. Annual sales were between $200 and $250 for all consumers except those in the lowest income group. Fewest revolving months were found in the lowest and highest income groups, while the proportion of sales revolved declined with rising income. Use of the convenience aspects of credit cards also rises with the number of credit cards used. Average sales, finance charges, months revolved, and per cent of sales revolved, all decline as the number of credit cards used increases.

Although revolving credit use has increased substantially in the last ten years, there has also been a corresponding decline in the use of credit from other sources. Credit is used to help make important transactions. Thus, consumers prefer to spend as little time and money getting credit as is possible. Many aspects of revolving credit make it an inexpensive source of credit compared to traditional lenders. In addition, credit cards provide other services of value to consumers.

Strict restrictions on debt collection result in higher credit standards, making it more difficult for lower income consumers to get credit. Low rate ceilings have the same effect. To the extent that credit availability does not decline, retail prices for goods and services must rise to make up for low finance charge revenues and higher bad debts. This induces subsidies to credit users from those who cannot or do not wish to use credit.[5]

With such a mixed record, it is not clear that protective legislation is assisting consumers. Some may benefit, but others pay the cost. Even attempts to inform the consumer (Truth in Lending for example) have met with only moderate success, and have been least successful among the most disadvantaged.

Indeed, such regulation can be only part of the solution. To realize the benefits available in the credit system, consumers must be actively involved in the market. We can make information available, but we cannot make consumers use it. It does little good to protect them if they are not well informed enough to enter the credit market. Thus, the major challenge lies not in the area of regulation, but in education. Only if all consumers are well educated in the fundamentals of credit use will they be able to use it to their advantage and avoid the costs of over-extension.

FOOTNOTES

1. The ratio of debt to disposable income did exceed 16 per cent in 1973, a period of rapid inflation and apparently general misperception about the state of the economy. Some consumers may also have been taking advantage of debtor positions during inflation, a benefit often overlooked by observers of the consumers' condition. This ratio should not be confused with the ratio of annual installment debt payments to income. Data were taken from the Survey of Current Business and Statistical Release G-16, Board of Governors, Federal Reserve System).

2. "EFTS and Consumer Credit," William C. Dunkelberg and Robert W. Johnson, Working Paper #2, Credit Research Center, Purdue University, 1975.

3. Shay, Robert and Dunkelberg, W. Retail Store Credit Card Use in New York, Columbia University Press, Columbia University, New York, 1975.

4. See "A Multivariate Analysis of Retail Revolving Credit Usage", by K. Reiners, unpublished doctoral dissertation at Purdue University for a much more detailed consideration of these points.

5. Shay and Dunkelberg, op. cit.

ABSTRACT*

THE EFFECT OF DEPT ON HOUSEHOLD WELFARE

Dr. Jean Kinsey and Dr. Sylvia Lane**

Does using consumer credit make families feel worse off? Much of the traditional literature on consumer credit implies that it will. Economic investment theory implies that utility will not decrease with the use of consumer credit. This study presents the results of applying logic analysis to the question of the effect of changes in debt-asset ratios and other financial and demographic variables on perceived changes in financial well-being.

Changes in debt-asset ratios were generally not found to be significant variables in influencing family units' perceptions concerning changes in their financial well being. However, there were some notable exceptions which lead to the conclusion that increasing installment debt to acquire commodities does not make families feel worse off. Increasing investment debt for stocks and bonds did tend to make families feel worse off whereas the reaction to increasing investment debt for real estate received mixed reactions.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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ABSTRACT*

TOWARD A FRAMEWORK FOR CONSUMER POLICY ANALYSIS

Dr. Lawrence Shepard**

Consumer research could materially benefit by adding a modest degree of structure prescribing both how the consumer subdisciplines are related to each other and how persons working in each subdiscipline might address what are common policy problems. To this end, the first section discusses the various subdisciplines. An attempt is made to broadly define them and to relate them to each other through an informal taxonomy. The second section proposes a framework for analyzing consumer problems in comprehensive case studies which integrate the subdisciplines falling under the consumer studies rubric area.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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A THEORY OF CONSUMERISM

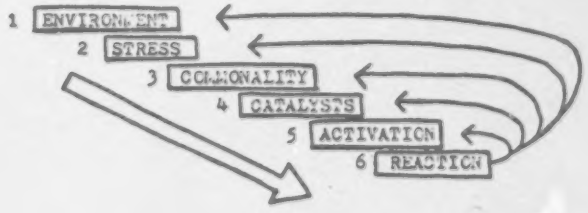
Dr. Gregory Gazda*

Consumerism, the efforts to increase the satisfaction of consumers with goods or services, is an important factor affecting businesses in the United States. But, analysis of consumerism has been hindered by the lack of a viable theoretical framework. This paper describes a sociological theory of consumerism. It suggests that there are six major factors or determinants of consumerism and that interaction between these factors results in a particular consumer movement. These factors are: Environment, Stress, Commonality, Catalysts, Activation and Reaction.

INTRODUCTION

Consumerism, the efforts to increase the satisfaction of consumers with goods or services, is an important factor affecting businesses in the United States. There has been some attempt to describe the consumer movement, but analysis has been hindered by the lack of viable theoretical framework.[1]

This theory is mainly a sociological one and is based on a model of collective behavior.[2] It is suggested that there are six major factors of determinants of consumerism and that interaction between these factors results in, or inhibit the formation of, a social movement. A diagram of the basic model is shown below:



These factors tend to progress from general to more specific occurrences. Also, each of these determinants is affected and limited by those that have preceded it. When the final factor--reaction--occurs, it then can affect any of the preceding factors much like a closed loop system. Each of these six major determinants of consumerism will be briefly explained below.

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Environment

This refers to the basic values held by the citizens of a particular country. Values like free enterprise or communism would be environmental variables and would help to determine whether overt hostile reaction or other types of consumer protest are used.

Stress

This is conflicting attitudes or relations that develop between consumers and others, such as the government, labor, or business, in a particular country. This stress stems from the basic values implicit in the environment.

Commonality

Beliefs that are shared by members of a society as a reaction to the stress that they perceive is the definition of commonality. This perception of common problems which at first may only vaguely be felt is often aided by extensive mass communications media.

Catalysts

These are specific events which tend to support the common beliefs mentioned above. Usually only major problems or changes will act as catalysts.

Activation

Activation is the organizing of consumers for action in order to solve the group's common problems. This is usually accomplished with the aid of dynamic individuals who act as leaders.

Reaction

This is the response of other members of society such as the government or business to the activation by consumers. It is the attempt to control the spread of consumerism and it may consist of tacit support or, more commonly, opposition.

This reaction can change any of the preceding factors. It may result in new basic values; it could prompt further stress; and it could reinforce common beliefs. The reaction itself could be a catalyst and certainly could prompt activation on the part of consumers.

APPLICATION OF THE THEORY TO THE UNITED STATES

To help clarify this theory of consumerism, it will be applied to the consumer movement in the U.S.

Environment

When considering the environmental factor, the emphasis is on basic societal values such as the ground rules for the marketplace where

buyer and seller interact. In the U.S., an underlying value of free enterprise pervades the interaction in the marketplace. Free enterprise refers to

> the freedom of private business to organize and operate for profit in a competitive system without interference by government beyond regulation necessary to protect public interest and keep the national economy in balance.[3]

In contrast, there does not appear to be any American value which talks about the freedom of the consumer in the marketplace, except perhaps the questionable concept of consumer sovereignty. One must consider, however, that the Federal and state governments can and do intervene in the public interest. Congress has passed numerous consumer protection laws since 1965. The Federal Trade Commission is requiring more product information in ads, and the Food and Drug Administration plans on taking products like saccharin off the market. This action by the government, although helpful in achieving some of the goals of the consumer movement, may be creating problems between consumers and the government.

Stress

One source of stress felt by American consumers is caused by advertising that implies benefits that are not attainable from use of the product. Another factor is the large distance between the producer and the consumer which has been prompted by mass production and mass distribution. Feedback from consumers through middlemen is subject to lags and distortion. This may be a significant reason for the stress felt by some consumers in trying to get faulty products fixed or returned--a major consumer problem.

Additional stress comes from the great number of product offerings available to consumers. Although this is a consumer benefit in one sense, consumer decisions can be quite difficult without adequate information about product quality, safety, and price. Thus, this product profusion problem may stem from a desire for growth and newness, a desire shared by consumers in many countries.

Ironically, the U.S. government appears to both be causing and reducing stress. In one sense the government has been passing laws to protect consumers against various business practices (i.e., Truth in Lending, Fair Credit Reporting Act, Consumer Product Safety Act) which help to reduce some of the consumer's problems. However, to the extent that these laws are not fully implemented because of inadequate funding or narrow interpretation, additional stress is prompted. The problems may be between consumers and government as opposed to consumers and business. Colston Warne touched on this issue a number of years ago. He said that with the government setting standards in a variety of industries, Consumers Union felt that it must keep one eye on manufacturers and the other on the government.[4]

Commonality

The realization of stress often leads to the spread of common beliefs. The common belief that appears to be at the basis of consumerism is that the consumer does not have effective power in the marketplace. The growth of this belief of the disadvantaged consumer in the marketplace has occurred partially because of the active and large communications networds (mainly radio, television, and newspapers) which relay the belief to other consumers. In particular, the rapid growth in consumer action programs on television, often during newscasts, has helped spotlight problems that individual consumers may have thought were unique to them.

Catalysts

Although individual difficulties with products may help to validate the common belief, major difficulties experienced by a large number of consumers or widely communicated to many consumers are often needed to precipitate a consumer movement.

In the past, there have been a few catalysts such as the Thalidomide reaction, the Corvair problems, the meat boycott, and the aerosol scare. The lack of other such occurrences has kept the consumer movement from advancing more quickly. Recently, however, another potential catalyst may have occurred--the banning of saccharin by the Food and Drug Administration. This action has caused an uproar among businessmen and consumers alike. However, the FDA now appears to be retreating somewhat from its position of taking saccharin off the market. This potential catalyst is especially noteworthy because it has been prompted by the government. This may be a precursor of future government-consumer problems.

Activation

The effective activation of participants of a consumer movement is usually accomplished by a recognized leader. In the U.S. this leader to a considerable extent has been Ralph Nader. Until his death, Senator Philip Hart of Michigan fought for consumer protection legislation, but never received national recognition as a consumer leader.

Ralph Nader's status as the leader of the consumer movement is still widely recognized; and his ability to expose practices not in the consumer's interest--backing his statements up with facts--has helped in his gaining the wide-spread publicity necessary to mobilize a large group of people. However, Nader has defined his goal as the improvement of the quality of life in America, a goal much broader than that of consumerism, and this could have a limiting effect on the growth of the consumer movement. Perhaps the recent influence of Ralph Nader with President Carter indicates a resurgence of Nader as the consumer leader.

Reaction

Counterforces must also be considered in assessing the growth of consumerism as a social movement. These forces basically are large business organizations and the government. The current flood of "we are concerned

about you, the consumer" advertisements can be seen as an attempt by business to reduce the stress perceived by consumers and thereby establish the company's image as one of helping the consumer solve his problems. In one sense they are attempting to dissuade consumers from the need for consumerism. This will only be effective if in fact noticeable differences are seen in the price, safety, and quality of products. If these ads are not accurate, then they may only serve to intensify the stress.

Hostile reaction is usually a great stimulus to a social movement. In the 1960's businesses' reaction was indeed hostile. More recently their overt hostility has diminished, thus diminishing the potential for an active consumer movement.

The second major force is government, which has been quite supportive of consumerism since the early 1960's as evidenced by the great number of consumer protection bills. While such support was diminished somewhat by the Nixon and Ford Administrations, the Carter Administration appears to be offering renewed support.

One of Carter's top priorities is the creation of the Agency for Consumer Advocacy (ACA), which most likely will occur in 1977. Carter's proposals are designed to:

1. plead the consumer's case within the government;
2. reimburse consumer groups so they can speak for themselves in agency and judicial procedures;
3. give citizens more opportunity to sue the government;
4. expand class action opportunities.[5]

While such a bill has long been an objective of consumerists, its passage will result in the institutionalism of the consumer movement. Consumers may feel that they need no longer be as concerned because the ACA is looking out for their welfare. Thus the consumer movement could diminish in importance.

OVERVIEW AND IMPLICATIONS

In looking at the consumer movement in the U.S. in terms of this theory of consumerism, one finds the environment conducive to the formation of social action. Although various stress factors exist, the activation of consumers has been hampered by few real catalytic events, by the diffusing of Ralph Nader's interests, and by the reduced overt hostility of business.

What, then, is the future of consumerism in the U.S.? First, the stress felt by members of the consumer movement may be reduced by the apparent resurgence of support by the federal government (President Carter's support of and probable passage of the Agency for Consumer Advocacy).

This further institutionalizing of consumerism may sap the vitality of the consumer movement and reduce the apparent need for individual participation.

Second, the chances of major catalysts occurring will probably be increasing not only because of the increased complexity and number of goods and services provided by business, but also because of governmental action or lack of action. Although the recent saccharin problem prompted by the FDA will most likely not become a major catalyst, it suggests the possibility of future problems prompted by the government.

Third, there is no longer a strong national leader of the consumer movement as a result of the fragmentation of the interests of Ralph Nader. No other national leader has emerged. Perhaps because of this, consumerism may be switching more to the state and local level and thus the issues in the future may become more specific and localized. This supports the views of a recent Advertising Age article that said, "if marketers have learned nothing else, they should know that there is no longer a single universal consumer movement."[6]

FOOTNOTES

1. See Robert O. Herrmann, "Consumerism: It's Goals, Organization and Future," Journal of Marketing, Vol. 34 (October, 1970), pp. 55-60; Richard Buskirk and James Rothe, "Consumerism--An Interpretation," Journal of Marketing, Vol. 34 (October, 1970), pp. 61-65; George S. Day and David A. Aaker, "A Guide to Consumerism," Journal of Marketing, Vol. 34 (July, 1970), pp. 12-19.

2. Neil J. Smelser, Theory of Collective Behavior (New York: The Free Press, 1963).

3. Webster's Seventh New Collegiate Dictionary (Springfield, Mass.: G & C Merriam Company, 1969), p. 333.

4. "Consumers Union Puts on Muscle," Business Week (December 23, 1967), p. 85.

5. "Consumerists Confident They'll Get New Agency," Advertising Age, April 11, 1977, p. 112.

6. Lorraine Baltera, "'New Consumer' Wants More Attention to Individual Needs," Advertising Age, February 7, 1977, p. 12.